



# **Government of the Cook Islands**

## **Financial Statements**

**for the year ended 30 June 2018**



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## Directory

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### Minister

Honourable Mark Brown  
Prime Minister and Minister of Finance and Economic Management

### Head of Ministry / Title

Garth Henderson  
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Ministry of Finance and Economic Management

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### Solicitor

Crown Law Office  
Avarua  
Rarotonga



## Ministerial Statement

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The audited financial results as at 30 June 2018 are strong, reflecting the effectiveness of this government's policies in navigating the country towards growth and prosperity.

The Cook Islands has experienced a run of strong economic growth in recent years, generating a stream of government revenue that has increased at a faster rate than government expenditure. This strong fiscal position makes the Cook Islands more resilient to future economic shocks and natural disasters.

The 2018 results show the operating balance before gains and losses (OBEGAL) surplus of \$60.9 million, an improvement of \$7.5 million over the prior year. Net debt as a percentage of GDP has decreased to 16.2% from 16.8% and Crown's net worth increased by \$63 million over the 2017 financial year. The fiscal overview section of this report details the positive financial results, all together these accounts represent a sound and resilient position, as recognised by international observers and ratings agencies.

This strong fiscal position has ensured our country can manage through the worldwide subsequent events of the Covid-19 pandemic experienced globally in the second half of 2019/2020. By swiftly implementing a Covid-19 Economic Response Plan that provides temporary social and economic support for individuals and businesses, closing our border and implementing Covid-19 health provisions has to date ensured our people can live in a Covid free country.

Although there will be a contraction of nominal GDP, the government is committed to continuing the investment in existing and new infrastructure projects, maintaining existing public services and ensure our country, in this era of a global pandemic, can swiftly return to the strong fiscal position experienced during the 2018 year.



**Hon Mark Brown**  
**Prime Minister and Minister of Finance**

30 November 2020

## Statement of responsibility

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These financial statements have been prepared by the Treasury in accordance with the provisions of the Ministry of Finance and Economic Act 1995-96. The financial statements comply with International Public Sector Accounting Standards, unless otherwise specified in the financial statements.

The Treasury is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance that the transactions recorded are within statutory authority and properly record the use of all public financial resources by the Government Reporting Entity. To the best of my knowledge, this system of internal control has operated adequately throughout the reporting period, subject to the qualifications included within the Independent Auditor's Report.

**Garth Henderson**  
**Financial Secretary**

30 November 2020

I accept responsibility for the integrity of these financial statements, the information they contain and their compliance with the Ministry of Finance and Economic Act 1995-96.

In my opinion, these financial statements fairly reflect the financial position of the Government as at 30 June 2018 and its operations for the year ended on that date, subject to the qualifications included within the Independent Auditor's Report.



**Hon Mark Brown**  
**Prime Minister and Minister of Finance**

30 November 2020





# Commentary on the Financial Statements

## Fiscal Overview

### At a glance

#### Summary of the performance of the economy

The Cook Islands experienced nominal Gross Domestic Product (GDP) growth of 10.3% in the year, rising from \$457.1 million to reach \$504.3 million. This performance extended a strong run of growth averaging 7.6% growth over the past 5 years, 2014/2015 to 2017/2018. Economic activity was largely result of tourism arrivals and higher levels of public and private capital investment.

Tourist arrivals have risen by 6.2% reaching a new annual high of 164,800 visitors. New Zealand remains our largest tourist market with 110,227 (67%) of total visitors. Our next largest market is Australia with 26,398 (16%) visitors for the year.

The value of residential and commercial building approvals has been much higher than the prior year. The rise in residential approvals appears to be for holiday houses, rather than residential living, driven by tourism growth. Commercial approvals have been led by a number of large community projects as well as a significant increase in tourist accommodation approvals.

Notable large Government capital projects during the year were Te Mato Vai, Tereora College Building and the Southern Group Renewable Energy Project.

#### Summary of the performance of Government

The Government's fiscal position has continued to strengthen this year with a surplus in the operating balance before gains and losses (OBEGAL), net Crown debt has increased as a share of the economy and net worth increased in nominal terms.

- Crown tax revenue was \$18.7 million more than last year and \$19.2 million more than the 2018 Budget Estimates (*pages 8 & 15*).  
Crown taxation revenue as percentage to GDP increased from 26% in the prior year to 27% (Fiscal policy benchmark: 25%)
- Other sovereign revenue was down \$5.5 million from last year and \$1.3 million more than the 2018 Budget Estimate (*pages 9 & 15*).
- Other revenue was \$19.0 million more than last year (*page 9*).
- Personnel expense was \$65.2 million, an increase of \$4.8 million from previous year. Personnel expense as percentage to total revenue (excluding aid revenue) has remained at 31% from previous year (*page 11*). (Fiscal policy benchmark: 40%)
- Crown expenses was \$24.6 million more than last year (*page 10*).
- The OBEGAL surplus of \$60.9 million was \$7.5 million higher than last year (*page 12*).
- The total Crown net surplus was \$58.2 million (*page 12*). (Fiscal policy benchmark: > 0)
- Gross Crown debt increased nominally by \$7.8 million to \$103.1 million from the prior year, and decreased as a percentage of GDP to 20.4% (*page 13*). Current year net debt servicing percentage was 3% of revenue (excluding aid revenue). (Fiscal policy benchmark: < 5%)
- Net Crown debt increased in nominal terms by \$4.9 million to \$81.8 million from the prior year, and decreased as a percentage of GDP to 16.2% (*page 13*). (Fiscal policy benchmark: < 35%)
- Net worth increased by \$63.0 million to \$399.8 million. This is largely owing to net surplus for the year (*page 14*).

Table 1 - Financial results

Year ended 30 June \$ '000	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
Taxation revenue	99,826	94,075	115,647	118,886	137,568
Other sovereign revenue	9,004	17,252	13,511	23,940	18,397
Other revenue	78,829	92,136	81,431	72,769	91,774
Expenses	175,309	176,329	181,948	162,198	186,846
OBEGAL (excluding minority interest)	12,350	27,134	28,641	53,397	60,893
Net surplus	20,571	20,996	36,553	61,772	58,159
Net debt	71,525	85,581	87,214	76,886	81,788
as percentage of GDP	19.4%	20.8%	20.0%	16.8%	16.2%
Gross debt	87,735	102,222	103,901	95,306	103,065
as percentage of GDP	23.8%	24.8%	23.8%	20.9%	20.4%
Net worth	252,656	263,070	292,611	336,774	399,770



## Fiscal Overview (continued)

### Year End results compared to Prior Year

#### Revenue

Total Crown revenue was \$247.7 million, an increase of \$32.1 million (15%) from last year owing to increased Crown Taxation revenue of \$18.7 million and increased Other revenue of \$19.0 million. These increases were offset by the decrease in Other sovereign revenue of (\$5.5) million.

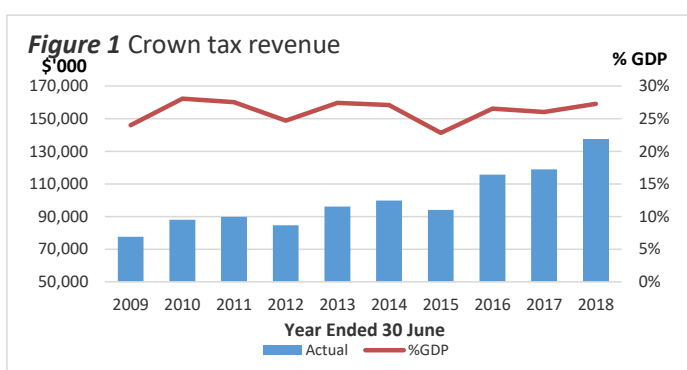
**Table 2 - Breakdown of revenue**

Year ended 30 June \$ '000	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
Taxation revenue	99,826	94,075	115,647	118,886	137,568
Other sovereign revenue	9,004	17,252	13,511	23,940	18,397
Other revenue	78,829	92,136	81,431	72,769	91,774
<b>Total Crown revenue</b>	<b>187,659</b>	<b>203,463</b>	<b>210,589</b>	<b>215,595</b>	<b>247,739</b>
<b>% of GDP</b>					
Taxation revenue	27.1%	22.8%	26.5%	26.0%	27.3%
Other sovereign revenue	2.4%	4.2%	3.1%	5.2%	3.6%
Other revenue	21.4%	22.3%	18.7%	15.9%	18.2%
<b>Total Crown revenue</b>	<b>50.9%</b>	<b>49.3%</b>	<b>48.3%</b>	<b>47.2%</b>	<b>49.1%</b>

#### Crown Taxation Revenue

Crown taxation revenue was \$137.6 million, up \$18.7 million (16%) from year before. The increase in Crown tax revenue was broadly the result of strong economic activity during the year and the collection of tax revenue from the Tax Amnesty programme. For further information relating to the Tax Amnesty programme refer to page 56 Note 4: Taxation revenue of the Financial Statements for further information.

Crown taxation revenue as percentage to GDP increased from 26% in the prior year to 27%. This ratio establishes boundaries on the collection of revenue and ensures that the Crown limits the diversion of resources away from the private sector. The benchmark that current and previous Governments have agreed to work within, is to maintain collections to within 25% of GDP.



Most major tax types increased over the year with three tax types making up most of the increase (Table 3). Strong economic activity was largely the result of tourist arrivals which have risen by 6.2% reaching a new annual high of 164,800 visitors and higher levels of public and private capital investment. Significant amount of private capital investment being for tourist accommodation.

**Table 3 - Movement in taxation revenue**

Year ended 30 June	\$ million
<b>2017 taxation revenue</b>	<b>118.9</b>
Individual income tax	5.1
Company income tax	7.5
Customs levies	(0.3)
Value added tax	5.5
Withholding tax	0.2
Departure tax	0.7
<b>2018 taxation revenue</b>	<b>137.6</b>

- Individual income tax increased by \$5.1 million (22%).
- Company income tax increased by \$7.5 million (65%).
- Value added tax increased by \$5.5 million (10%).



## Fiscal Overview (continued)

### Other Sovereign Revenue

Crown other sovereign revenue was \$18.4 million, a decrease of \$5.5 million (23%) from previous year. Other sovereign revenue includes fees, fines, licensing and fisheries revenue. The decrease over the year related predominantly to a decrease of \$5.3 million (-29%) from fisheries revenue.

Fisheries revenue makes up 70% of Crown other sovereign revenue. The Crown receives fisheries revenue from the sale of fishing licenses and the sale of fish catch quotas for albacore tuna and bigeye tuna to longline fishing vessels. In December 2016, longline regulations for the Quota Management System (QMS) were enacted setting a total allowable catch of 9,750t for albacore tuna and 3,500t for bigeye tuna per calendar year were set.

The Crown receives a significant portion of fisheries revenue from purse seine fishery, where the Cook Islands Exclusive Economic Zone (EEZ) has a total limit of 1,250 fishing days in accordance with conservation and management measures implemented by the Western Central Pacific Fisheries Commission (WCPFC). The price for a fishing day ranges from \$14,500 to \$15,000, as determined by exchange rates, as a vessel day is charged at a rate of US\$9,500 per day.

The \$5.3 million (29%) decrease in fisheries revenue related predominantly to the \$3.9 million (26%) decrease from less purse sein vessel days purchased during the year, 872 days purchased as opposed to 1,059 days in the previous year.

In addition, longline fish catch quota decreased by \$1.0 million (54%) during the year, 3,550t of quota purchased as opposed to 7,670t in the previous year.

Year ended 30 June	Annual	Actual	Actual
\$ '000	Limit	2017	2018
Longline fishing license		1,106	805
Longline fish catch quota		1,914	888
Purse seine vessel fishing days		15,038	11,104
		<b>18,058</b>	<b>12,797</b>

Longline fish catch quota (metric tonne)	\$250 per mt	12,198 mt	7,670	3,550
Purse seine vessel fishing days	\$9,500 USD per day	1,250 days	1,059	872

**Table 4 - Number of active fishing vessels**

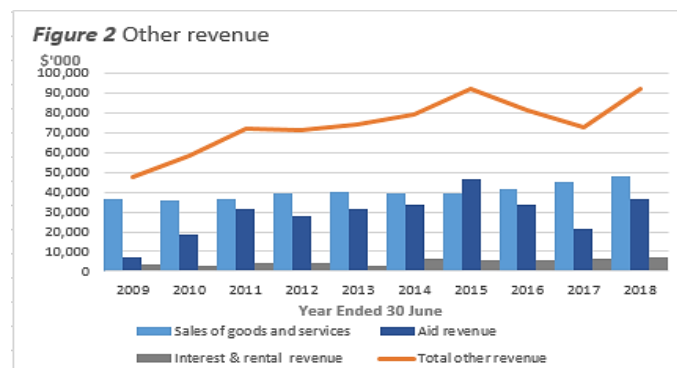
Licensed and active vessels	2016	2017	2018
<i>Offshore fishery</i>			
Long liner	47	55	42
Purse seiner	33	16	40
Other commercial	10	8	13
<b>Total offshore fishery</b>	<b>90</b>	<b>79</b>	<b>95</b>
<i>Local artisanal and game fishery</i>			
	<b>285</b>	<b>273</b>	<b>304</b>

source: Cook Islands Government Budget Estimates 2020/24 Book 1 - Table 5-7 Number of active fishing vessels

### Other Revenue

Total Crown other revenue was \$91.8 million, an increase of \$19.0 million (26%) from previous year. Other revenue includes revenue from operations of Crown entities and State-owned enterprises (SOEs), interest revenue, rental income and aid revenue.

The increase in Crown other revenue predominantly related to the \$15.2 million (71%) increase from Aid revenue. This increase related mainly to the Te Mato Vai project and the Southern Group Renewable Energy project. Refer to page 60 Note 11: Aid activities of the Financial Statements for further information.

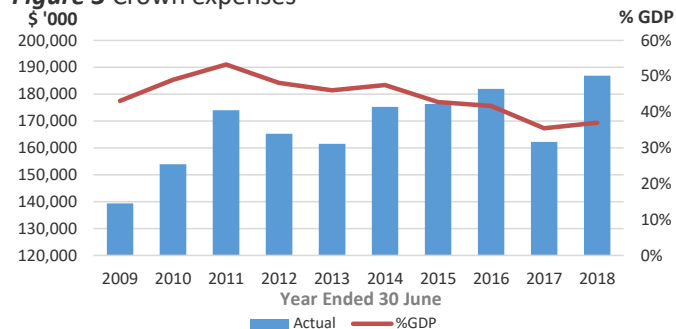


## Fiscal Overview (continued)

### Expenses

Total Crown expenses were \$186.8 million in the current year, \$24.6 million (15%) more than last year. Crown expense as percentage to GDP increased from 36% in the prior year to 37%.

**Figure 3** Crown expenses



**Table 5 - Breakdown of expenses**

Year ended 30 June \$ '000	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
Personnel expenses	58,378	58,904	60,118	60,349	65,185
Welfare payments	14,348	15,691	15,878	16,193	18,271
Depreciation	10,893	14,247	15,497	15,961	17,267
Finance cost	4,609	4,538	4,765	5,074	4,441
Air New Zealand underwrite	11,102	9,764	5,920	9,106	11,208
Fuel and oil	12,318	10,375	8,092	8,490	9,574
Repairs and maintenance	6,742	5,413	13,804	14,819	7,126
Tourism marketing	4,658	4,745	2,441	2,347	3,697
Other expenses	21,028	24,819	24,619	17,174	33,249
Aid expenses	31,233	27,833	30,814	12,685	16,828
<b>Total Crown expense</b>	<b>175,309</b>	<b>176,329</b>	<b>181,948</b>	<b>162,198</b>	<b>186,846</b>
<b>% of GDP</b>					
Personnel expenses	15.8%	14.3%	13.8%	13.2%	12.9%
Welfare payments	3.9%	3.8%	3.6%	3.5%	3.6%
Depreciation	3.0%	3.5%	3.6%	3.5%	3.4%
Finance cost	1.3%	1.1%	1.1%	1.1%	0.9%
Air New Zealand underwrite	3.0%	2.4%	1.4%	2.0%	2.2%
Fuel and oil	3.3%	2.5%	1.9%	1.9%	1.9%
Repairs and maintenance	1.8%	1.3%	3.2%	3.2%	1.4%
Tourism marketing	1.3%	1.2%	0.6%	0.5%	0.7%
Other expenses	5.7%	6.0%	5.6%	3.8%	6.6%
Aid expenses	8.5%	6.8%	7.1%	2.8%	3.3%
<b>Total Crown expense</b>	<b>47.6%</b>	<b>42.8%</b>	<b>41.7%</b>	<b>35.5%</b>	<b>37.1%</b>

## Fiscal Overview (continued)

### Personnel expenses

Personnel expenses was \$65.2 million, an increase of \$4.8 million (8%) from previous year. Personnel expenses as percentage to total revenue (excluding aid revenue) has remained at 31% from previous year. This ratio is aimed at controlling expansion in the size of the public sector. The benchmark that current and previous Governments agreed to work within is maintaining the expenditure on personnel within 40% of total revenues. Refer to page 58 Note 7: Personnel expenses of the Financial Statements for further information.

### Welfare payments

Welfare payments was \$18.3 million, an increase of \$2.1 million (13%) from previous year. Refer to page 58 Note 8: Welfare payments of the Financial Statements for further information.

### Depreciation

Depreciation was \$17.3 million, an increase of \$1.3 million (8%) from previous year. This increase largely related to capital expenditure for the year. Refer to pages 67 -69 Note 17, 18 & 19: Property, plant and equipment of the Financial Statements for further information.

### Air New Zealand underwrite

The Air New Zealand underwrite is to support two non-economical long haul services operated by Air New Zealand from Los Angeles, United States of America and Sydney, Australia. Air New Zealand underwrite was \$11.2 million, an increase of \$2.1 million (23%) from previous year.

**Table 7 - Visitor arrivals by country**

Year ended	Total	New Zealand	Australia	USA	Canada	Europe	Other
2014	122,527	78,701	22,211	5,182	2,015	10,629	3,789
2015	121,772	82,217	20,627	5,064	1,876	9,313	2,675
2016	135,134	89,910	23,389	5,876	2,062	9,944	3,953
2017	155,230	105,072	24,578	7,436	2,664	11,122	4,358
2018	164,800	110,227	26,398	8,131	3,287	11,928	4,829

### Repairs and maintenance

Repairs and maintenance was \$7.1 million, a decrease of \$7.7 million (52%) from previous year. This movement largely related to the repairs and maintenance undertaken by State-owned enterprises in the previous year.

### Other expenses

Other expenses was \$33.2 million, an increase of \$16.1 million (94%) from previous year. This movement pertained to the \$16.9 million worth of unsubstantiated consolidated eliminating entries posted to other expense in the previous year.

### Aid Expenses

Aid expenses was \$16.8 million, an increase of \$4.1 million (33%) from previous year. Aid expenses is largely dependent on the respective grant funding agreements with respective donors and the timing of aid funded projects. Refer to page 60 Note 11: Aid activities of the Financial Statements for further information.

**Table 6 - Movement in Crown expenses**

Year ended 30 June	\$ million
<b>2017 Crown expenses</b>	<b>162.2</b>
Personnel expenses	4.8
Welfare payments	2.1
Depreciation	1.3
Finance cost	(0.6)
Air New Zealand underwrite	2.1
Fuel and oil	1.1
Repairs and maintenance	(7.7)
Tourism marketing	1.3
Other expenses	16.1
Aid expenses	4.1
<b>2018 Crown expenses</b>	<b>186.8</b>

## Fiscal Overview (continued)

### Net Surplus

#### OBEGAL (Operating Balance before Gains and Losses)

The OBEGAL surplus of \$60.9 million is an improvement of \$7.5 million (14%) from last year. Total Crown revenue was \$247.7 million, an increase of \$32.1 million (15%) from last year while total Crown expenses also increased by \$24.6 million (15%) to \$186.8 million for the year.

The increase in OBEGAL surplus for the year is largely owing to increased Crown taxation revenue of \$18.7 million and increased Other revenue of \$19.0 million which was offset by the increase in total Crown expenses of \$24.6 million.

#### Net Surplus

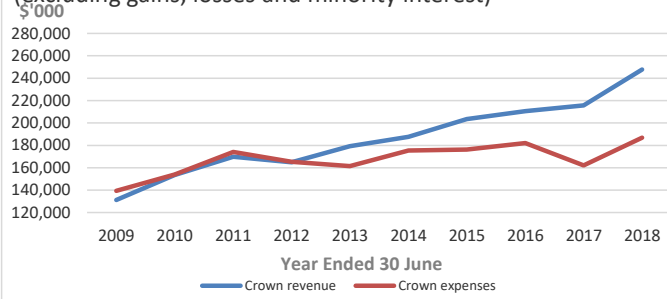
Current year net surplus was \$58.2 million, a decrease of 3.6 million from the past year. The OBEGAL surplus of \$60.9 million was reduced by \$2.7 million. This decrease was the result of foreign exchange losses of \$7.2 million for the year which was offset by the \$4.4 million from the Crown's interest in Telecom Cook Islands Limited.

The Crown's fiscal strategy is to maintain a net surplus balance > \$0, this target ensures that the Government is able to afford operational expenditure required to perform the functions of Government from its own revenue streams.

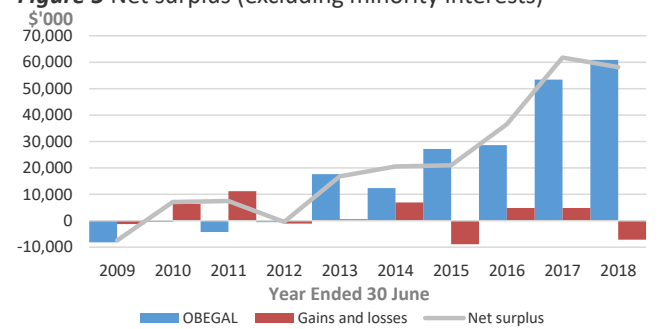
#### Foreign exchange gain / (loss)

The Crown reported a foreign exchange loss of \$7.2 million as opposed to a foreign exchange gain of \$4.9 million reported in the prior year. Historically, the Crown has been subject to volatile fluctuations as 67% of total borrowings of \$103.1 million are denominated in foreign currency.

**Figure 4** Crown revenue and Crown expenses (excluding gains, losses and minority interest)



**Figure 5** Net surplus (excluding minority interests)



Refer to page 38 Statement of Borrowings – currency analysis of the Financial Statements for further information.

#### Minority interest

Share of profit of associate relates to the Crown's interest in Telecom Cook Islands Limited and CIIC Seabed Resources Limited. The Crown has 40% ownership in Telecom Cook Islands Limited and 50% ownership of CIIC Seabed Resources Limited. Refer to page 65 Note 15: Investments in shares and associates of the Financial Statements for further information.

**Table 8 - Total Crown net surplus / (loss)**

Year ended 30 June \$ '000	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
<b>Total Crown OBEGAL</b>	<b>12,350</b>	<b>27,134</b>	<b>28,641</b>	<b>53,397</b>	<b>60,893</b>
<b>Gains, losses and minority interest</b>					
Impairment loss / gain or loss on disposal of assets	(37)	(3)	(39)	(79)	15
Foreign exchange gain / loss	6,940	(8,898)	4,872	4,867	(7,188)
Share of profit of associate	1,318	2,763	3,079	3,587	4,439
<b>Total gains, losses and minority interest</b>	<b>8,221</b>	<b>(6,138)</b>	<b>7,912</b>	<b>8,375</b>	<b>(2,734)</b>
<b>Total Crown net surplus / (loss)</b>	<b>20,571</b>	<b>20,996</b>	<b>36,553</b>	<b>61,772</b>	<b>58,159</b>
<b>% of GDP</b>					
Total Crown OBEGAL	3.4%	6.6%	6.6%	11.7%	12.1%
Total Crown gains and losses	1.9%	-2.2%	1.1%	1.0%	-1.4%
Total Crown minority interest	0.4%	0.7%	0.7%	0.8%	0.9%
<b>Net surplus</b>	<b>5.6%</b>	<b>5.1%</b>	<b>8.4%</b>	<b>13.5%</b>	<b>11.5%</b>

## Fiscal Overview (continued)

### Debt

Gross Crown debt was \$103.1 million, up \$7.8 million (8%) from year before. The increase was the result of \$7.8 million foreign exchange loss and \$6.8 million in additional loans drawn down during the year. This was offset by \$6.9 million in loan repayments for the year.

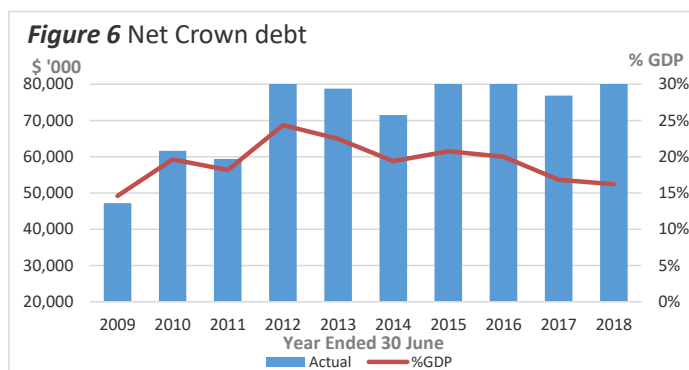
**Table 9 - Movement in gross Crown debt**

Year ended 30 June	\$ million
<b>2017 gross Crown debt</b>	<b>95.4</b>
Additional loans	6.8
Loan repayments	(6.9)
Foreign exchange (gain) or loss	7.8
<b>2018 gross Crown debt</b>	<b>103.1</b>

The additional loan drawn down of \$6.8 million for the year pertained to the Southern Group Renewable Energy project. Refer to 78 Note 27 Subsequent events of the Financial Statements for further details regarding the project.

Net Crown debt is made up of gross Crown debt less loan repayment fund <sup>[1]</sup>. Net Crown debt was \$81.8 million, up \$4.9 million (6%) from year before. Net Crown debt as percentage to GDP decreased from 17% from the prior year to 16%. The Crown's fiscal strategy is to maintain net debt < 35% of GDP. This ensures the level of debt relative to national income, controls the overall level of debt taken on by Government.

Also part of the Crown's fiscal strategy is to maintain debt servicing < 5% of revenue (excluding aid revenue). This ensures the ability of Government to service its debt obligations from revenue collected. Current year net debt servicing percentage was 3% (3%: 2017).



Additional information regarding Crown debt can be found on page 38 Statement of borrowings of the Financial Statements.

**Table 10 - Debt**

Year ended 30 June \$ '000	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
Gross debt	87,735	102,222	103,901	95,306	103,065
as percentage of GDP	23.8%	24.8%	23.8%	20.9%	20.4%
Loan repayment fund	16,210	16,641	16,687	18,420	21,277
Net debt	71,525	85,581	87,214	76,886	81,788
as percentage of GDP	19.4%	20.8%	20.0%	16.8%	16.2%

<sup>[1]</sup> Loan repayment fund – included in cash and cash equivalents and term deposits are funds that have been quarantined for the repayment of debt as per the Loan Repayment Fund Act 2014.



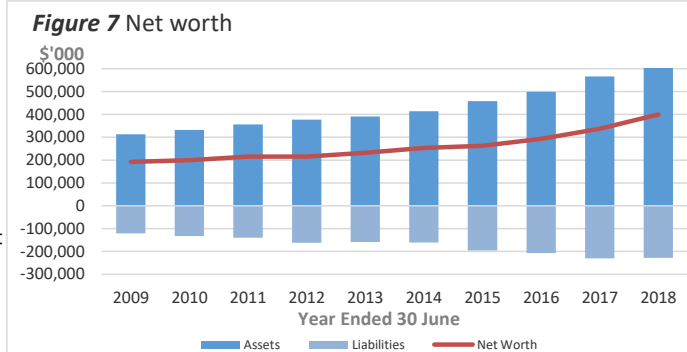
## Fiscal Overview (continued)

### Total Crown Balance Sheet

#### Net Worth

Net worth is the difference between the Crown's total assets (what the government owns) and liabilities (what the government owes). This difference consists of the accumulation of past net surpluses and deficits (referred to as taxpayers' funds).

Net worth was \$399.8 million at 30 June 2018, an increase of \$63.0 million from a year earlier. This was largely owing to net surplus for the year. As a share of the economy, net worth increased by 5.6% from 73.7% of GDP in 2017 to 79.3% of GDP in the current year.



#### The Crown Balance Sheet

Total Crown assets were \$627.5 million at 30 June 2018, a \$61.1 million (11%) increase from last year. This growth related predominantly to financial assets and property, plant and equipment, which grew by \$26.5 million (12%) and \$38.8 million (14%), respectively. This was offset by a decrease of \$7.1 million (-17%) in other assets.

Total Crown liabilities were \$227.8 million, a decrease of \$1.9 million (-1%) from the previous year.

**Table 11 - Composition of the total Crown balance sheet**

Year ended 30 June \$ '000	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
Financial assets	124,522	144,252	171,295	230,994	257,525
Loan repayment fund	16,210	16,641	16,687	18,420	21,277
Property, plant and equipment	231,069	261,546	278,032	274,575	313,407
Other assets	41,600	35,575	33,280	42,431	35,328
<b>Total assets</b>	<b>413,401</b>	<b>458,014</b>	<b>499,294</b>	<b>566,420</b>	<b>627,537</b>
Borrowings	87,735	102,222	103,901	95,306	103,065
Other liabilities	73,010	92,722	102,782	134,340	124,702
<b>Total liabilities</b>	<b>160,745</b>	<b>194,944</b>	<b>206,683</b>	<b>229,646</b>	<b>227,767</b>
<b>Net worth</b>	<b>252,656</b>	<b>263,070</b>	<b>292,611</b>	<b>336,774</b>	<b>399,770</b>

#### Financial assets

Financial assets reported at \$257.5 million were \$26.5 million higher than last year. The increase was largely the result of a general increase in the Crown's cash reserves of \$24.6 million.

#### Property, plant and equipment

The \$38.8 million increase in PPE related predominantly to the following projects:

- \$12.1 million in work in progress relating to Te Mato Vai Stage 2 project
- \$12.4 million in work in progress relating to the Southern Group Renewable Energy project
- \$6.7 million to complete the Tereora College Redevelopment project.

#### Other Liabilities

Other liabilities of \$124.7 million were \$9.6 million less than last year. The decrease was largely the result of a \$13.0 million decrease in creditors and other payables offset by an increase of \$7.7 million in trustee liabilities.

## Fiscal Overview (continued)

### Year End results compared to Budget 2018

The Cook Islands Government Budget Estimates 2017/18 was published on 23 June 2017. These financial statements of the Cook Islands Government comprises of the following segments [2]:

#### Crown parent + Crown entities (44) + State owned enterprises (16) = Cook Islands Government

State owned enterprise operations are not included in the preparation of the Government Budget Estimates. The analysis below is actual performance of the Crown parent and Crown entities against the Budget.

**Table 12 - Comparison to the Budget 2018**

Year ended 30 June \$ '000	Financial Statement Note Reference	Actual 2018	Budget 2018	Variance \$	Variance %
Crown taxation revenue	4	137,568	118,409	19,159	16%
Crown other sovereign revenue	5	18,397	17,064	1,333	8%
Sales of goods and services	6	6,702	6,169	533	9%
Interest revenue		3,767	1,740	2,027	116%
Aid revenue	11	36,559	77,763	(41,204)	-53%
<b>Total revenue</b>		<b>202,993</b>	<b>221,145</b>	<b>(18,152)</b>	<b>-8%</b>
Personnel expenses	7	54,154	55,955	(1,801)	-3%
Welfare payments	8	18,271	18,336	(65)	0%
Finance costs	9	2,198	2,063	135	7%
Depreciation and amortisation	17,18 & 19	8,202	12,844	(4,642)	-36%
Aid expenses	11	36,559	77,763	(41,204)	-53%
Administered payments	10	21,332	32,173	(10,841)	-34%
Payments on behalf of the Crown	10	2,158	2,071	87	4%
Other expenses		19,193	19,614	(421)	-2%
<b>Total expense</b>		<b>162,067</b>	<b>220,819</b>	<b>(58,752)</b>	<b>-27%</b>
<b>Operating balance before gains and losses (OBEGAL)</b>		<b>40,926</b>	<b>326</b>	<b>40,600</b>	<b>12454%</b>

#### Crown Taxation Revenue

Crown taxation revenue was \$19.2 million (16%) more than expected in the Budget for 2018, all major tax types increased over the year with three tax types making up most of the increase (Table 13). The increase in Crown tax revenue was broadly the result of strong economic activity during the year and the collection of tax revenue from the Tax Amnesty programme. *For further information relating to the Tax Amnesty programme refer to page 56 Note 4: Taxation revenue of the Financial Statements for further information.*

Strong economic activity was largely the result of tourist arrivals which have risen by 6.2% reaching a new annual high of 164,800 visitors, and higher levels of public and private capital investment. Significant amount of private capital investment being for tourist accommodation. The largest differences being as follows:

- Individual income tax was \$5.2 million (22%).
- Company income tax was \$6.1 million (47%) above budget.
- Value added tax (VAT) was \$4.8 million (8%) above budget.

**Table 13 - Taxation revenue compared to budget**

Year ended 30 June	\$ million
<b>2018 budget</b>	<b>taxation revenue</b>
Individual income tax	5.2
Company income tax	6.1
Customs levies	0.6
Value added tax	4.8
Withholding tax	1.9
Departure tax	0.6
<b>2018 taxation revenue</b>	<b>137.6</b>

[2] Refer to page 29 Schedule of Government entities for a detailed listing of all entities per segment



## **Fiscal Overview (continued)**

### **Crown Other Sovereign Revenue**

Crown other sovereign revenue was \$1.3 million (8%) more than expected in the Budget for 2018, there were no significant movements during the year.

### **Aid Revenue and Expenses**

Aid revenue was \$41.2 million (-53%) less than expected in the 2018 Budget, the shortfall over the year related predominantly to aid funded projects by various donors not being fully implemented or started during the year. The notable projects were:

- European Union Fund for southern Cook Islands renewable energy project
- Global Environment Fund for southern Cook Islands renewable energy project
- New Zealand Aid contribution for Te Mato Vai project
- Apii Nikao School rebuild project funded by China.

*Refer to page 77 Note 27: Subsequent events for further information.*

*Refer to page 78 Note 27: Subsequent events for further information.*

*For further information regarding aid activities, refer to page 60 Note 11: Aid activities of the Financial Statements*

### **Administered Payments**

Administered payments were \$10.8 million (-34%) less than expected from the Budget for 2018, with the largest differences being a \$7.7 million difference resulting from different budgeting and accounting treatments for funding received from New Zealand aid for core sector support. Core sector support is funding tailored to support the Ministry of Education, Ministry of Health, Cook Islands Tourism and Marketing Corporation and the Ministry of Finance and Economic Management. The 2018 Budget has classified the funds as Core sector support revenue and expensed it as administered funds on the respective Crown entities. Within the financial statements the funding has been treated as Aid revenue and Aid expenses.



## Fiscal Overview (continued)

## Historical Financial Information

## Historical Financial Information

Year ended 30 June \$ '000	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
<b>Statement of financial performance</b>										
Taxation revenue	77,591	88,088	89,878	84,718	96,077	99,826	94,075	115,647	118,886	137,568
Fees, fines, penalties and licenses	2,531	2,739	2,517	2,600	2,598	2,698	4,269	2,970	3,191	3,712
Fisheries licenses	1,572	2,844	3,528	4,363	4,877	5,503	10,887	7,714	18,057	12,797
Other Crown revenue	1,967	1,815	1,727	1,876	1,310	803	2,096	2,827	2,692	1,888
<b>Total sovereign revenue</b>	<b>83,661</b>	<b>95,486</b>	<b>97,650</b>	<b>93,557</b>	<b>104,862</b>	<b>108,830</b>	<b>111,327</b>	<b>129,158</b>	<b>142,826</b>	<b>155,965</b>
Sales of goods and services	36,806	36,084	36,287	39,381	40,049	39,257	39,402	41,659	44,795	48,250
Interest revenue	3,516	3,164	4,249	4,027	3,151	3,349	3,169	3,047	3,664	3,767
Rental revenue	-	-	-	-	-	-	2,764	2,868	2,886	3,198
Aid revenue	7,235	18,722	31,578	27,821	31,116	33,459	46,697	33,839	21,349	36,559
<b>Total Crown revenue</b>	<b>131,218</b>	<b>153,456</b>	<b>169,764</b>	<b>164,786</b>	<b>179,178</b>	<b>187,659</b>	<b>203,463</b>	<b>210,589</b>	<b>215,595</b>	<b>247,739</b>
Personnel expenses	50,430	50,397	52,319	53,699	53,913	58,378	58,904	60,118	60,349	65,185
Welfare payments	10,815	12,268	12,305	12,778	13,108	14,348	15,691	15,878	16,193	18,271
Depreciation	10,367	10,318	12,045	11,879	12,374	10,893	14,247	15,497	15,961	17,267
Finance cost	2,497	3,431	3,459	3,129	3,159	4,609	4,538	4,765	5,074	4,441
Air New Zealand underwrite	2,982	1,912	4,486	11,829	9,554	11,102	9,764	5,920	9,106	11,208
Fuel and oil	14,681	11,751	12,456	13,728	13,267	12,318	10,375	8,092	8,490	9,574
Repairs and maintenance	6,492	5,093	6,635	3,848	6,985	6,742	5,413	13,804	14,819	7,126
Tourism marketing	2,397	3,276	4,728	4,497	3,413	4,658	4,745	2,441	2,347	3,697
Other expenses	32,808	39,053	36,406	24,189	16,086	21,028	24,819	24,619	17,174	33,249
Aid expenses	5,918	16,424	29,191	25,724	29,685	31,233	27,833	30,814	12,685	16,828
<b>Total Crown expense</b>	<b>139,387</b>	<b>153,923</b>	<b>174,030</b>	<b>165,300</b>	<b>161,544</b>	<b>175,309</b>	<b>176,329</b>	<b>181,948</b>	<b>162,198</b>	<b>186,846</b>
<b>Operating balance excluding gains and losses (OBEGAL) (excluding minority interest)</b>	<b>(8,169)</b>	<b>(467)</b>	<b>(4,266)</b>	<b>(514)</b>	<b>17,634</b>	<b>12,350</b>	<b>27,134</b>	<b>28,641</b>	<b>53,397</b>	<b>60,893</b>
Impairment loss / gain or loss on disposal of assets	(490)	(370)	(695)	(224)	(2,940)	(37)	(3)	(39)	(79)	15
Foreign exchange gain / loss	(1,252)	6,355	11,176	(1,057)	585	6,940	(8,898)	4,872	4,867	(7,188)
Share of profit of associate	2,458	1,543	1,237	1,343	1,565	1,318	2,763	3,079	3,587	4,439
<b>Net surplus</b>	<b>(7,453)</b>	<b>7,061</b>	<b>7,452</b>	<b>(452)</b>	<b>16,844</b>	<b>20,571</b>	<b>20,996</b>	<b>36,553</b>	<b>61,772</b>	<b>58,159</b>
<b>Statement of financial position</b>										
Property, plant and equipment	181,369	188,242	192,093	209,726	219,933	231,069	261,546	278,032	274,575	313,407
Financial assets	84,739	103,013	116,949	129,376	132,517	124,522	144,252	171,295	230,994	257,525
Loan repayment fund	20,934	16,261	11,639	1,115	1,152	16,210	16,641	16,687	18,420	21,277
Other assets	25,617	24,702	35,222	37,014	37,603	41,600	35,575	33,280	42,431	35,328
<b>Total assets</b>	<b>312,659</b>	<b>332,218</b>	<b>355,903</b>	<b>377,231</b>	<b>391,205</b>	<b>413,401</b>	<b>458,014</b>	<b>499,294</b>	<b>566,420</b>	<b>627,537</b>
Borrowings	68,127	77,906	70,998	84,678	79,953	87,735	102,222	103,901	95,306	103,065
Other liabilities	52,252	54,973	69,270	77,312	79,167	73,010	92,722	102,782	134,340	124,702
<b>Total liabilities</b>	<b>120,379</b>	<b>132,879</b>	<b>140,268</b>	<b>161,990</b>	<b>159,120</b>	<b>160,745</b>	<b>194,944</b>	<b>206,683</b>	<b>229,646</b>	<b>227,767</b>
<b>Net worth</b>	<b>192,280</b>	<b>199,339</b>	<b>215,635</b>	<b>215,241</b>	<b>232,085</b>	<b>252,656</b>	<b>263,070</b>	<b>292,611</b>	<b>336,774</b>	<b>399,770</b>
<b>Debt indicators</b>										
Borrowings less loan repayment fund	47,193	61,645	59,359	83,563	78,801	71,525	85,581	87,214	76,886	81,788
Net debt percentage of GDP	14.6%	19.6%	18.2%	24.4%	22.5%	19.4%	20.8%	20.0%	16.8%	16.2%
Gross debt percentage of GDP	21.1%	24.8%	21.7%	24.7%	22.8%	23.8%	24.8%	23.8%	20.9%	20.4%
<b>Nominal Gross Domestic Product (GDP)</b>										
Nominal GDP	323,306	313,971	326,644	343,072	350,560	368,653	412,297	435,948	457,056	504,258
Annual GDP growth rates	2.3%	-2.9%	4.0%	5.0%	2.2%	5.2%	11.8%	5.7%	4.8%	10.3%
<i>source: <a href="http://www.mfem.gov.ck/statistics/economic-statistics/national-accounts">http://www.mfem.gov.ck/statistics/economic-statistics/national-accounts</a> accessed 12 Oct 2020</i>										
<b>Visitor arrivals</b>										
Number of visitors	96,930	100,319	108,750	116,897	120,701	122,527	121,772	135,134	155,230	164,800
Annual growth rate in visitor numbers	0.8%	3.5%	8.4%	7.5%	3.3%	1.5%	-0.6%	11.0%	14.9%	6.2%
<i>source: <a href="http://www.mfem.gov.ck/statistics/social-statistics/tourism-and-migration">http://www.mfem.gov.ck/statistics/social-statistics/tourism-and-migration</a> accessed 12 Oct 2020</i>										

Fiscal Overview (continued)

Historical Financial Information

Year ended 30 June as % of GDP	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
<b>Statement of financial performance</b>										
Taxation revenue	24.0%	28.1%	27.5%	24.7%	27.4%	27.1%	22.8%	26.5%	26.0%	27.3%
Fees, fines, penalties and licenses	0.8%	0.9%	0.8%	0.8%	0.7%	0.7%	1.0%	0.7%	0.7%	0.7%
Fisheries licenses	0.5%	0.9%	1.1%	1.3%	1.4%	1.5%	2.6%	1.8%	4.0%	2.5%
Other Crown revenue	0.6%	0.6%	0.5%	0.5%	0.4%	0.2%	0.5%	0.6%	0.6%	0.4%
<b>Total sovereign revenue</b>	<b>25.9%</b>	<b>30.4%</b>	<b>29.9%</b>	<b>27.3%</b>	<b>29.9%</b>	<b>29.5%</b>	<b>27.0%</b>	<b>29.6%</b>	<b>31.2%</b>	<b>30.9%</b>
Sales of goods and services	11.4%	11.5%	11.1%	11.5%	11.4%	10.6%	9.6%	9.6%	9.8%	9.6%
Interest revenue	1.1%	1.0%	1.3%	1.2%	0.9%	0.9%	0.8%	0.7%	0.8%	0.7%
Rental revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.7%	0.7%	0.6%	0.6%
Aid revenue	2.2%	6.0%	9.7%	8.1%	8.9%	9.1%	11.3%	7.8%	4.7%	7.3%
<b>Total Crown revenue</b>	<b>40.6%</b>	<b>48.9%</b>	<b>52.0%</b>	<b>48.0%</b>	<b>51.1%</b>	<b>50.9%</b>	<b>49.3%</b>	<b>48.3%</b>	<b>47.2%</b>	<b>49.1%</b>
Personnel expenses	15.6%	16.1%	16.0%	15.7%	15.4%	15.8%	14.3%	13.8%	13.2%	12.9%
Welfare payments	3.3%	3.9%	3.8%	3.7%	3.7%	3.9%	3.8%	3.6%	3.5%	3.6%
Depreciation	3.2%	3.3%	3.7%	3.5%	3.5%	3.0%	3.5%	3.6%	3.5%	3.4%
Finance cost	0.8%	1.1%	1.1%	0.9%	0.9%	1.3%	1.1%	1.1%	1.1%	0.9%
Air New Zealand underwrite	0.9%	0.6%	1.4%	3.4%	2.7%	3.0%	2.4%	1.4%	2.0%	2.2%
Fuel and oil	4.5%	3.7%	3.8%	4.0%	3.8%	3.3%	2.5%	1.9%	1.9%	1.9%
Repairs and maintenance	2.0%	1.6%	2.0%	1.1%	2.0%	1.8%	1.3%	3.2%	3.2%	1.4%
Tourism marketing	0.7%	1.0%	1.4%	1.3%	1.0%	1.3%	1.2%	0.6%	0.5%	0.7%
Other expenses	10.1%	12.4%	11.1%	7.1%	4.6%	5.7%	6.0%	5.6%	3.8%	6.6%
Aid expenses	1.8%	5.2%	8.9%	7.5%	8.5%	8.5%	6.8%	7.1%	2.8%	3.3%
<b>Total Crown expense</b>	<b>43.1%</b>	<b>49.0%</b>	<b>53.3%</b>	<b>48.2%</b>	<b>46.1%</b>	<b>47.6%</b>	<b>42.8%</b>	<b>41.7%</b>	<b>35.5%</b>	<b>37.1%</b>
<b>Operating balance excluding gains and losses (OBEGAL) (excluding minority interest)</b>	<b>-2.5%</b>	<b>-0.1%</b>	<b>-1.3%</b>	<b>-0.1%</b>	<b>5.0%</b>	<b>3.4%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>11.7%</b>	<b>12.1%</b>
Impairment loss / gain or loss on disposal of assets	-0.2%	-0.1%	-0.2%	-0.1%	-0.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Foreign exchange gain / loss	-0.4%	2.0%	3.4%	-0.3%	0.2%	1.9%	-2.2%	1.1%	1.1%	-1.4%
Share of profit of associate	0.8%	0.5%	0.4%	0.4%	0.4%	0.4%	0.7%	0.7%	0.8%	0.9%
<b>Net surplus</b>	<b>-2.3%</b>	<b>2.2%</b>	<b>2.3%</b>	<b>-0.1%</b>	<b>4.8%</b>	<b>5.6%</b>	<b>5.1%</b>	<b>8.4%</b>	<b>13.5%</b>	<b>11.5%</b>
<b>Statement of financial performance</b>										
Property, plant and equipment	56.1%	60.0%	58.8%	61.1%	62.7%	62.7%	63.4%	63.8%	60.1%	62.2%
Financial assets	26.2%	32.8%	35.8%	37.7%	37.8%	33.8%	35.0%	39.3%	50.5%	51.1%
Loan repayment fund	6.5%	5.2%	3.6%	0.3%	0.3%	4.4%	4.0%	3.8%	4.0%	4.2%
Other assets	7.9%	7.9%	10.8%	10.8%	10.7%	11.3%	8.6%	7.6%	9.3%	7.0%
<b>Total assets</b>	<b>96.7%</b>	<b>105.8%</b>	<b>109.0%</b>	<b>110.0%</b>	<b>111.6%</b>	<b>112.1%</b>	<b>111.1%</b>	<b>114.5%</b>	<b>123.9%</b>	<b>124.4%</b>
Borrowings	21.1%	24.8%	21.7%	24.7%	22.8%	23.8%	24.8%	23.8%	20.9%	20.4%
Other liabilities	16.2%	17.5%	21.2%	22.5%	22.6%	19.8%	22.5%	23.6%	29.4%	24.7%
<b>Total liabilities</b>	<b>37.2%</b>	<b>42.3%</b>	<b>42.9%</b>	<b>47.2%</b>	<b>45.4%</b>	<b>43.6%</b>	<b>47.3%</b>	<b>47.4%</b>	<b>50.2%</b>	<b>45.2%</b>
<b>Net worth</b>	<b>59.5%</b>	<b>63.5%</b>	<b>66.0%</b>	<b>62.7%</b>	<b>66.2%</b>	<b>68.5%</b>	<b>63.8%</b>	<b>67.1%</b>	<b>73.7%</b>	<b>79.3%</b>
% change taxation revenue	2.3%	13.5%	2.0%	-5.7%	13.4%	3.9%	-5.8%	22.9%	2.8%	15.7%
Total Crown revenue growth	1.8%	16.9%	10.6%	-2.9%	8.7%	4.7%	8.4%	3.5%	2.4%	14.9%
Total Crown expense growth	10.9%	10.4%	13.1%	-5.0%	-2.3%	8.5%	0.6%	3.2%	-10.9%	15.2%
Operating balance excluding gains and losses (OBEGAL) (excluding minority interest) growth	-356.6%	-94.3%	813.5%	-88.0%	-3530.7%	-30.0%	119.7%	5.6%	86.4%	14.0%
	-371.3%	-194.7%	5.5%	-106.1%	-3826.5%	22.1%	2.1%	74.1%	69.0%	-5.8%







# Independent audit report of the Director of Audit



# Independent Audit Report of the Director of Audit

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## TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE COOK ISLANDS FOR THE YEAR ENDED 30 JUNE 2018

### Opinion

I have audited the financial statements of the Government of the Cook Islands (the financial statements of the Government) for the year ended 30 June 2018 using my staff, resources, and appointed auditors and their staff. The financial statements of the Government on pages 28 to 79 comprise:

The annual financial statements include the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in equity, and statement of cash flows for the year ended on that date, statement of segments, statement of borrowings, statement of commitments, statement of contingent liabilities, notes to the financial statements that include accounting policies and other explanatory information.

### Qualified opinion

In my opinion, except for the possible effects of the matters described in the *Basis for qualified opinion* section of my report, the financial statements of the Government on pages 28 to 79:

- i. present fairly in all material respects, the Government's:
  - a. financial position as at 30 June 2018; and
  - b. financial performance for the year ended on that date;
- ii. comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Management Act 1995-96 and International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board.

My audit was completed 30 November 2020. This is the date on which my opinion is expressed.

The basis for my opinion is explained below. I outline the responsibilities of the Ministry of Finance and the Minister of Finance and my responsibilities for the financial statements of the Government. I also comment on other information and explain my independence.

### Basis for qualified opinion

I have identified four matters affecting my opinion, which are outlined below.

**1. I was unable to confirm property, plant and equipment of \$115.9 million and infrastructure assets of \$187.3 million**

The Government could not provide enough evidence to confirm that the values recorded against property, plant and equipment and infrastructure assets in the statement of financial position, and the related elements included in the statement of financial performance, statement of changes in equity, statement of commitments and statement of cash flows were fairly presented. Therefore, I could not determine whether these statements comply with generally accepted accounting practice.

The Government has not kept appropriate records and does not have strong enough internal controls to record all of the assets it owns, including those received from donor partners.

Also, certain buildings and infrastructure assets, such as roads and water, which have been recognised by the Government have not been recorded by significant components. There is an accounting standard, IPSAS 17 - Property Plant and Equipment, which requires the assets to be recorded separately. The assets need to be recorded separately because they need to be managed differently.

The Government has also not assessed whether any of the property, plant and equipment and infrastructure assets are impaired, as required by IPSAS 21 - Impairment of Non-Cash-Generating Assets. This assessment is important to ensure that the value of the assets are not overstated at year end.

**2. *I was unable to confirm taxation revenue of \$137.6 million, tax amnesty write-off of \$23.5 million and tax receivables of \$9.3 million***

My Office was not given access to the underlying tax records to assess whether tax revenue has been appropriately recorded. As a result, I cannot confirm that taxation revenue, tax receivables, tax amnesty write-off and the related elements included in the statement of financial position, statement of financial performance and statement of cash flows were fairly presented and comply with generally accepted accounting practice.

Also, the Government did not assess whether tax receivables were complete and reasonable at year end, including amounts owing from provisional taxpayers who have not yet filed their final tax return. The Government also did not assess whether any of the expected tax receivables might not eventuate at balance date (called impairment), as required by IPSAS 29 - Financial Instruments: Recognition and Measurement.

The current tax system does not fully enable Government to account for taxation revenue on an accrual basis or distinguish which period tax receipts relate to. This has resulted in the tax amnesty write off \$23.5 million not being reflected in the statement of financial performance or the statement of financial position.

**3. *I disagreed with how the Government has prepared its consolidated financial statements***

The Government has recorded a number of transactions in its financial statements to correct prior year errors, which it has recognised through a “prior year consolidation adjustments” equity account. Prior year consolidation adjustments of \$29.9 million (-\$18.8 million (2017)) could not be confirmed. This is a departure from IPSAS 3 – Accounting Policies, Estimates and Errors. The Government should instead have corrected these significant prior period errors by retrospectively correcting the comparative information in the financial statements.

**4. *I disagreed with how low interest concessionary loans had been accounted for***

The Government has departed from the requirements of IPSAS 29- Financial Instruments: Recognition and Measurement because it has not recorded all of its low-interest concessionary loans, made over the last 40 years, at their fair value. As a result, the Government’s borrowings that have been recorded in the statement of financial position and the statement of borrowings are overstated. Without proper records, I cannot determine to what extent the borrowings are overstated.

I carried out my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI), which incorporate ISSAI 130 Code of Ethics issued by the International Organization of Supreme Audit Institutions (INTOSAI Code of Ethics). My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements of the Government* section of this report.

I have fulfilled my responsibilities in accordance with ISSAI.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Responsibilities of the Financial Secretary and the Minister of Finance for the financial statements of Government**

The Financial Secretary is responsible for preparing financial statements of the Government that:

- comply with generally accepted accounting practice in the Cook Islands, in accordance with IPSAS;
- present fairly the Government's financial position, financial performance, and cash flows; and
- present fairly the Government's borrowings

The Minister of Finance is responsible for forming an opinion that the financial statements of the Government present fairly the financial position and financial performance of the Government.

The responsibilities of the Financial Secretary and the Minister of Finance arise from the Ministry of Finance and Economic Management Act 1995-96.

The Financial Secretary is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements of the Government that are free from material misstatement, whether due to fraud or error. The Financial Secretary is also responsible for publishing the financial statements of the Government, whether in printed or electronic form.

In carrying out their respective responsibilities for the financial statements of the Government, the Financial Secretary and the Minister of Finance are responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's responsibilities for the audit of the financial statements of Government**

My objectives are to obtain reasonable assurance about whether the financial statements of the Government as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions readers make based on the financial statements of the Government.



As part of an audit in accordance with ISSAI, I exercise professional judgement and maintain professional skepticism throughout the audit. Also:

- I identify and assess the risks of material misstatement of the financial statements of the Government, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, because fraud can involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control used by the Financial Secretary to prepare the financial statements of the Government.
- I evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the Financial Secretary.
- I conclude on the appropriateness of using the going concern basis of accounting that has been used by the Financial Secretary to prepare the financial statements of the Government, up to the date of my auditor's report, based on the audit evidence I have obtained.
- I evaluate the overall presentation, structure, and content of the financial statements of the Government, including the disclosures, and whether the financial statements of the Government represent the underlying transactions and events in a manner that achieves fair presentation.

As part of my audit, I obtain information from my staff and appointed auditors of the entities that are consolidated into the financial statements of the Government, including information about:

- elimination of transactions between the entities that are consolidated into the financial statements of the Government;
- application by those entities of appropriate accounting policies and instructions to prepare the financial statements of the Government; and
- the risks of material misstatement of the financial statements of those entities that may affect the financial statements of the Government.

I communicate with the Financial Secretary, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that I identify during my audit.

I am responsible for expressing an independent opinion on the financial statements of the Government and reporting that opinion to you based on my audit. My responsibility arises from the Public Expenditure Review Committee and Audit Act 1995-96.

## Other information

The Financial Secretary is responsible for the other information. The other information comprises the information included on pages 1 to 79, but does not include the annual financial statements of the Government and my auditor's report thereon.

My opinion on the financial statements of the Government does not cover the other information and I do not express any form of audit opinion or assurance conclusion on that information.

In connection with my audit of the financial statements of the Government, my responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the financial statements of the Government or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on my work, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Independence

While carrying out this audit, my staff and appointed auditors and their staff complied with the ISSAI 130 Code of Ethics or the independence requirements of Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

As an Officer of Parliament, I am constitutionally independent of the Government.



Allen Parker

Director of Audit  
Cook Islands Audit Office  
Rarotonga, Cook Islands







# Audited financial statements of the Government of the Cook Islands

**Schedule of Government entities  
For the year ended 30 June 2018**

These financial statements are for the Government of the Cook Islands as defined in the Ministry of Finance and Economic Management Act 1995/96. This comprises of the following segments;

**Crown parent + Crown entities (44) + State owned enterprises (16) = Cook Islands Government**

Below is the listing of each individual entity that has been consolidated to prepare the financial statements of the whole of the Cook Islands Government:

**Crown entities (44)**

**Ministries (12)**

- 1 Infrastructure Cook Islands
- 2 Ministry of Agriculture
- 3 Ministry of Cultural Development
- 4 Ministry of Education
- 5 Ministry of Finance and Economic Management
- 6 Ministry of Foreign Affairs & Immigration
- 7 Ministry of Health
- 8 Ministry of Internal Affairs and Social Services
- 9 Ministry of Justice
- 10 Ministry of Marine Resources
- 11 Ministry of Police
- 12 Ministry of Transport

**Crown agencies and offices (15)**

- 23 Business Trade and Investment Board
- 24 Cook Islands Pearl Authority
- 25 Cook Islands Tourism and Marketing Corporation
- 26 Cook Islands Seabed Mineral Authority
- 27 Crown Law Office
- 28 Development Coordination Division
- 29 Financial Services Development Authority
- 30 Financial Supervisory Commission
- 31 Head of State
- 32 National Environment Service
- 33 Office of the Public Expenditure Review Committee and Audit
- 34 Office of the Public Service Commissioner
- 35 Office of the Ombudsman
- 36 Office of the Prime Minister
- 37 Parliament of the Cook Islands

**State owned enterprises (16)**

- 1 Cook Islands Investment Corporation

**Subsidiaries of Cook Islands Investment Corporation (CIIC)**

- 2 Ports Authority
- 3 Te Aponga Uira O Tumu Te Varovaro
- 4 Airport Authority
- 5 Cook Islands Broadcasting Corporation
- 6 CIIC Seabed Resources Limited
- 7 Cook Islands Government Property Corporation

**Subsidiaries of Cook Islands Government Property Corporation**

- 8 Banana Court Co Limited
- 9 Cook Islands Property Corporation
- 10 Bank of the Cook Islands Limited
- 11 Suvarrow Development Corporation
- 12 Development Finance limited
- 13 Cook Islands Telecommunication Holdings Limited
- 14 Aitutaki Power Supply Limited
- 15 To Tatou Vai Limited
- 16 Avaroa Cables Limited

**Island administrations (10)**

- 13 Atiu Island Administration
- 14 Aitutaki Island Administration
- 15 Mangaia Island Administration
- 16 Manihiki Island Administration
- 17 Mauke Island Administration
- 18 Mitiaro Island Administration
- 19 Palmerston Island Administration
- 20 Penrhyn Island Administration
- 21 Pukapuka Nassau Island Administration
- 22 Rakahanga Island Administration

**Ministerial support (7)**

- 38 Prime Minister's Support Office
- 39 Office of the Deputy Prime Minister
- 40 Office of the Leader of Opposition
- 41 Minister M.Brown's Support Office
- 42 Minister K. Turepu's Support Office
- 43 Minister N.Glassie's Support Office
- 44 Minister A. Nicholas's Support Office



**Statement of Financial Performance**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	Note	2018 \$000	Restated 2017 \$000
<b>Revenue</b>			
Taxation revenue	4	137,568	118,886
Other sovereign revenue	5	18,397	23,940
<b>Total sovereign revenue</b>		<b>155,965</b>	<b>142,826</b>
Sales of goods and services	6	48,250	44,795
Interest revenue		3,767	3,664
Rental revenue		3,198	2,961
Aid revenue	11	36,559	21,349
<b>Total revenue earned through operations</b>		<b>91,774</b>	<b>72,769</b>
<b>Total revenue (excluding gains and minority interest)</b>		<b>247,739</b>	<b>215,595</b>
<b>Expenses</b>			
Personnel expenses	7	65,185	60,349
Welfare payments	8	18,271	16,193
Audit Fees		416	378
Changes in provision for doubtful debts	14	927	1,567
Depreciation and amortisation	17, 18, 19 & 20	17,267	15,961
Finance costs	9	4,441	5,074
Aid expenses	11	16,829	12,685
Other expenses	10	63,510	49,991
<b>Total expenses (excluding losses)</b>		<b>186,846</b>	<b>162,198</b>
<b>Operating balance before gains and losses (OBEGAL) &amp; minority interest</b>		<b>60,893</b>	<b>53,397</b>
<b>Other gains / (losses) and minority interest</b>			
Gain / (loss) on disposal of assets		15	(79)
Foreign exchange gain / (loss)		(7,188)	4,867
Share of profit of associate	15	4,439	3,587
<b>Total other gains / (losses) and minority interest</b>		<b>(2,734)</b>	<b>8,375</b>
<b>Net surplus</b>		<b>58,159</b>	<b>61,772</b>

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Financial Position**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	Note	2018 \$000	2017 \$000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	41,872	63,972
Term deposits	12	125,477	84,484
Trust accounts	24	22,369	16,698
Inventory	13	8,674	9,225
Debtors and other receivables	14	26,654	33,206
Banking portfolio investments	16	10,064	9,132
<b>Total current assets</b>		<b>235,110</b>	<b>216,717</b>
<b>Non-current assets</b>			
Investments in shares and associate	15	11,144	9,879
Banking portfolio investments	16	67,876	65,249
Investment property	20	5,300	5,499
Property, plant and equipment	17	115,909	112,330
Infrastructural assets	18	187,259	155,290
Intangible assets	19	4,939	1,455
<b>Total non-current assets</b>		<b>392,427</b>	<b>349,702</b>
<b>Total assets</b>		<b>627,537</b>	<b>566,419</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Creditors and other payables	22	16,855	29,814
Employee entitlements	23	3,783	3,782
Trustee liabilities	24	38,021	30,364
Banking customer deposits	25	64,241	66,163
Current borrowings	Borrowings	8,413	3,589
<b>Total current liabilities</b>		<b>131,313</b>	<b>133,712</b>
<b>Non-current liabilities</b>			
Banking customer deposits	25	1,802	4,217
Non-current borrowings	Borrowings	94,652	91,716
<b>Total non-current liabilities</b>		<b>96,454</b>	<b>95,933</b>
<b>Total liabilities</b>		<b>227,767</b>	<b>229,645</b>
<b>Net assets</b>		<b>399,770</b>	<b>336,774</b>
<b>Equity</b>			
Capital contributions and retained earnings		<b>399,770</b>	<b>336,774</b>
<b>Total equity</b>		<b>399,770</b>	<b>336,774</b>

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Changes in Equity**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	General \$000	Taxpayers funds \$000	Total equity \$000
<b>Net worth at 30 June 2016</b>	<b>1,956</b>	<b>290,655</b>	<b>292,611</b>
Prior year consolidation adjustments *	-	(18,821)	(18,821)
Other Equity Movement	-	1,212	1,212
Net surplus / (deficit) for the year	-	61,772	61,772
<b>Net worth at 30 June 2017</b>	<b>1,956</b>	<b>334,818</b>	<b>336,774</b>
2017 opening equity adjustments **	-	(25,105)	(25,105)
Prior year consolidation adjustments *	-	29,942	29,942
Net surplus / (deficit) for the year	-	58,159	58,159
<b>Net worth at 30 June 2018</b>	<b>1,956</b>	<b>397,814</b>	<b>399,770</b>

\* **'Prior year consolidation adjustments'** - this relates to the correction of significant prior year consolidation adjustments in the current financial year. Government deemed it impracticable to restate prior year comparatives. Hence there was no restatement to equity and any other affected or related accounts.

\*\* **'2017 opening equity adjustments'** - this relates to 30 June 2017 consolidation transactions and adjustments that were necessary to align the 2018 opening equity balance to last year's audited 2017 closing equity balance.

**Due to the above limitation, the audit report of these financial statements is qualified in this regard.**

These financial statements should be read in conjunction with the accompanying notes and policies





**Statement of Cash Flows**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	2018	2017
	\$000	\$000
<b>Cash Flows From Operating Activities</b>		
<b>Cash was provided from:</b>		
Taxation receipts	138,133	118,097
Other sovereign receipts	18,814	26,181
Sales of goods and services receipts	52,984	39,477
Aid receipts	36,559	8,664
Receipts from associates	3,352	2,649
<b>Total cash provided from operations</b>	<b>249,842</b>	<b>195,068</b>
<b>Cash was disbursed to:</b>		
Social welfare benefits and education grant payments	17,576	16,193
Personnel payments	63,149	60,103
Banking portfolio investment payments	-	5,074
Debt servicing	2,505	-
Supplier payments	97,186	39,943
Realised foreign exchange movements	1,809	(2,320)
<b>Total cash disbursed to operations</b>	<b>182,225</b>	<b>118,993</b>
<b>Net cash flows from operations</b>	<b>67,617</b>	<b>76,075</b>
<b>Cash Flows From Investing Activities</b>		
<b>Cash was provided from:</b>		
Sale of property, plant and equipment	15	-
Repayment of advance	4,837	-
Net increase in trustee accounts	-	7,054
Interest received from investments	8,110	2,454
<b>Total cash provided from investing activities</b>	<b>12,962</b>	<b>9,508</b>
<b>Cash was disbursed to:</b>		
Purchase of property, plant and equipment	51,197	17,284
Purchase of infrastructure	1,586	7,121
Purchase of intangible assets	3,484	128
Net change in investments value	42,566	45,499
<b>Total cash disbursed to investing activities</b>	<b>98,833</b>	<b>70,032</b>
<b>Net cash flows from investing activities</b>	<b>(85,871)</b>	<b>(60,524)</b>
<b>Cash Flows From Financing Activities</b>		
<b>Cash was provided from:</b>		
Drawdown of borrowings	7,171	-
Client deposit accounts held	(4,337)	15,612
Customs bonds received	33	50
<b>Total cash provided from financing activities</b>	<b>2,867</b>	<b>15,662</b>
<b>Cash was disbursed to:</b>		
Loan repayments (foreign-sourced borrowings)	6,712	6,047
<b>Total cash disbursed to financing activities</b>	<b>6,712</b>	<b>6,047</b>
<b>Net cash flows from financing activities</b>	<b>(3,845)</b>	<b>9,615</b>
<b>Net movement in cash</b>	<b>(22,099)</b>	<b>25,166</b>
Opening cash balance	63,972	38,806
<b>Closing cash and cash equivalents balance</b>	<b>41,872</b>	<b>63,972</b>

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Cash Flows (continued)**  
**For the Year Ended 30 June 2018**  
*In New Zealand Dollars*

	2018	2017
	\$000	\$000
<b>Reconciliation between the Operating Balance and the Net Cash Flows from Operations</b>		
<b>Net surplus/ (loss) for the year</b>	<b>58,159</b>	<b>61,772</b>
<b>Add / (less) non cash items</b>		
Depreciation and amortisation	17,267	15,961
Change in provision for doubtful debts	(1,208)	3
Impairment on property, plant and equipment	-	-
Unrealised foreign exchange movement	(5,364)	2,547
Prior year adjustment	-	(6,441)
<b>Total non cash items</b>	<b>10,695</b>	<b>12,070</b>
<b>Add / (less) movements in working capital</b>		
(increase)/ decrease in taxes receivable	1,822	(2,160)
(increase)/ decrease in accounts receivable	-	-
(increase)/ decrease in dividend receivable	-	(938)
(increase)/ decrease in interest receivable	(96)	-
(increase)/ decrease in prepayments	219	(932)
(increase)/ decrease in inventory	557	(163)
(increase)/ decrease in other current assets	154	-
(increase)/ decrease in other receivables	5,661	(3,751)
(increase)/ decrease in trustee accounts	(3,559)	(1,312)
(increase)/ decrease in debt servicing	(2,505)	(5,074)
increase/ (decrease) in amounts due to employees	1	246
increase/ (decrease) in interest accrued	33	-
increase/ (decrease) in tax refund liability	48	(1,368)
increase/ (decrease) in customer deposits	(4,337)	15,612
increase/ (decrease) in creditors	(5,186)	12,914
increase/ (decrease) in investments in shares and associates	(1,310)	(1,187)
increase/ (decrease) in provision for legal settlement TOA	(498)	(1,059)
increase/ (decrease) in foreign borrowings	7,759	(8,595)
<b>Total movement in working capital</b>	<b>(1,237)</b>	<b>2,233</b>
<b>Net cash inflows/(outflows) from operating activities</b>	<b>67,617</b>	<b>76,075</b>

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Segments  
For the year ended 30 June 2018  
In New Zealand Dollars

	Current Year Actual vs Prior Year Actual									
	Crown Parent		Crown Entities		State Owned Enterprises		Inter-Segment Elimination		Whole of Government	
	Actual 2018 \$000	Actual 2017 \$000	Actual 2018 \$000	Actual 2017 \$000	Actual 2018 \$000	Actual 2017 \$000	Actual 2018 \$000	Actual 2017 \$000	Actual 2018 \$000	Actual 2017 \$000
<b>Revenue</b>										
Taxation revenue	140,657	121,420	-	-	-	-	(3,089)	(2,534)	137,568	118,886
Other Sovereign revenue	17,717	22,192	419	679	658	1,189	(397)	(120)	18,397	23,940
Revenue from Crown funding	-	-	68,409	64,470	7,749	6,602	(76,158)	(71,072)	-	-
<b>Total sovereign revenue</b>	<b>158,374</b>	<b>143,612</b>	<b>68,828</b>	<b>65,149</b>	<b>8,407</b>	<b>7,791</b>	<b>(79,644)</b>	<b>(73,726)</b>	<b>155,965</b>	<b>142,826</b>
Sales of goods and services	441	264	6,811	8,651	42,304	37,098	(1,306)	(1,218)	48,250	44,795
Interest revenue	2,854	2,927	-	-	1,703	1,524	(790)	(787)	3,767	3,664
Rental revenue	3,024	1,760	-	-	3,198	2,961	(3,024)	(1,760)	3,198	2,961
Aid revenue	25,082	29,834	5,222	2,799	4,665	6,232	1,590	(17,516)	36,559	21,349
<b>Total revenue earned through operations</b>	<b>31,401</b>	<b>34,785</b>	<b>12,033</b>	<b>11,450</b>	<b>51,870</b>	<b>47,815</b>	<b>(3,530)</b>	<b>(21,281)</b>	<b>91,774</b>	<b>72,769</b>
<b>Total revenue (excluding gains and minority interest)</b>	<b>189,775</b>	<b>178,397</b>	<b>80,861</b>	<b>76,599</b>	<b>60,277</b>	<b>55,606</b>	<b>(83,174)</b>	<b>(95,007)</b>	<b>247,739</b>	<b>215,595</b>
<b>Expenses</b>										
Personnel expenses	1,269	1,216	50,851	47,330	11,031	9,816	2,034	1,987	65,185	60,349
Welfare payments	17,710	16,192	-	-	-	-	561	1	18,271	16,193
Audit Fees	-	-	27	27	404	376	(15)	(25)	416	378
Changes in provision for doubtful debts	-	-	609	164	318	1,403	-	-	927	1,567
Depreciation and amortisation	2,019	1,781	6,183	5,856	9,065	8,325	-	(1)	17,267	15,961
Finance costs	2,196	2,221	1	-	2,993	3,929	(749)	(1,076)	4,441	5,074
Aid expenses	17,748	27,724	3,170	2,476	-	-	(4,089)	(17,515)	16,829	12,685
Other expenses	113,672	107,877	18,159	19,404	30,287	27,076	(98,608)	(104,366)	63,510	49,991
<b>Total expenses (excluding losses)</b>	<b>154,614</b>	<b>157,011</b>	<b>79,000</b>	<b>75,257</b>	<b>54,098</b>	<b>50,925</b>	<b>(100,866)</b>	<b>(120,995)</b>	<b>186,846</b>	<b>162,198</b>
<b>Operating balance before gains and losses (OBEGAL) &amp; minority interest</b>	<b>35,161</b>	<b>21,386</b>	<b>1,861</b>	<b>1,342</b>	<b>6,179</b>	<b>4,681</b>	<b>17,692</b>	<b>25,988</b>	<b>60,893</b>	<b>53,397</b>
<b>Other gains / (losses) and minority interest</b>										
Gain / (loss) on disposal of assets	46	6	(31)	(90)	1	4	(1)	1	15	(79)
Foreign exchange gain / (loss)	(6,501)	4,469	-	-	(687)	398	-	-	(7,188)	4,867
Share of profit of associate	-	-	-	-	4,439	3,587	-	-	4,439	3,587
<b>Total other gains / (losses) and minority interest</b>	<b>(6,455)</b>	<b>4,475</b>	<b>(31)</b>	<b>(90)</b>	<b>3,753</b>	<b>3,989</b>	<b>(1)</b>	<b>1</b>	<b>(2,734)</b>	<b>8,375</b>
<b>Net surplus</b>	<b>28,706</b>	<b>25,861</b>	<b>1,830</b>	<b>1,252</b>	<b>9,932</b>	<b>8,670</b>	<b>17,691</b>	<b>25,989</b>	<b>58,159</b>	<b>61,772</b>

Statement of Segments reports on the three different segments of the Cook Islands Government. This includes Crown Parent, Crown Entities and State Owned Enterprises. A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

Inter-Segmental Elimination reports eliminations of any inter-agency revenue, expenses, assets and liabilities.  
The whole of Government reports on the final consolidated financial performance and position as at 30 June 2018.

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Segments (Continued)  
For the year ended 30 June 2018  
In New Zealand Dollars

	Current Year Actual vs Prior Year Actual									
	Crown Parent Actual 2018 \$000	Actual 2017 \$000	Crown Entities Actual 2018 \$000	Actual 2017 \$000	State Owned Enterprises Actual 2018 \$000	Actual 2017 \$000	Inter-Segment Elimination Actual 2018 \$000	Actual 2017 \$000	Whole of Government Actual 2018 \$000	Actual 2017 \$000
<b>Assets</b>										
<b>Current assets</b>										
Cash and cash equivalents	29,571	29,137	10,020	10,140	14,961	24,966	(12,680)	(271)	41,872	63,972
Term deposits	84,032	60,691	2,909	2,959	43,334	49,973	(4,798)	(29,139)	125,477	84,484
Trust accounts	28,944	20,190	7,953	6,519	-	-	(14,528)	(10,011)	22,369	16,698
Inventory	1,146	1,170	1,631	1,814	5,897	6,110	-	131	8,674	9,225
Debtors and other receivables	71,061	40,074	41,378	45,819	13,050	19,144	(98,835)	(71,831)	26,654	33,206
Banking portfolio investments	-	-	-	-	10,064	9,132	-	-	10,064	9,132
<b>Total current assets</b>	<b>214,754</b>	<b>151,262</b>	<b>63,891</b>	<b>67,251</b>	<b>87,306</b>	<b>109,325</b>	<b>(130,841)</b>	<b>(111,121)</b>	<b>235,110</b>	<b>216,717</b>
<b>Non-current assets</b>										
Investments in shares and associate	22,034	28,298	-	-	11,111	9,847	(22,001)	(28,266)	11,144	9,879
Banking portfolio investments	-	-	-	-	67,877	65,249	(1)	-	67,876	65,249
Investment property	-	-	-	-	5,298	5,499	2	-	5,300	5,499
Plant, property and equipment	65,650	41,430	19,872	23,890	92,862	79,147	(62,475)	(32,137)	115,909	112,330
Intangible assets	110	202	2,334	613	2,495	640	182,320	153,835	187,259	155,290
Infrastructural assets	18,749	20,470	20,398	18,196	85,593	84,488	(119,801)	(121,699)	4,939	1,455
<b>Total non-current assets</b>	<b>106,543</b>	<b>90,400</b>	<b>42,604</b>	<b>42,699</b>	<b>265,236</b>	<b>244,870</b>	<b>(21,956)</b>	<b>(28,267)</b>	<b>392,427</b>	<b>349,702</b>
<b>Total assets</b>	<b>321,297</b>	<b>241,662</b>	<b>106,495</b>	<b>109,950</b>	<b>352,542</b>	<b>354,195</b>	<b>(152,797)</b>	<b>(139,388)</b>	<b>627,537</b>	<b>566,419</b>
<b>Liabilities</b>										
<b>Current liabilities</b>										
Creditors and other payables	52,087	55,950	60,216	62,862	9,377	22,889	(104,825)	(111,887)	16,855	29,814
Employee entitlements	76	76	3,239	2,600	468	1,106	-	-	3,783	3,782
Trustee liabilities	29,158	20,440	11,955	9,925	-	-	(3,092)	(1)	38,021	30,364
Banking customer deposits	-	-	-	-	88,673	96,869	(24,432)	(30,706)	64,241	66,163
Current borrowings	8,413	3,589	-	-	-	-	-	-	8,413	3,589
<b>Total current liabilities</b>	<b>89,734</b>	<b>80,055</b>	<b>75,410</b>	<b>75,387</b>	<b>98,518</b>	<b>120,864</b>	<b>(132,349)</b>	<b>(142,594)</b>	<b>131,313</b>	<b>133,712</b>
<b>Non-current liabilities</b>										
Banking customer deposits	-	-	-	-	1,802	4,217	-	-	1,802	4,217
Non-current borrowings	94,652	91,717	-	-	21,320	22,743	(21,320)	(22,744)	94,652	91,716
<b>Total non-current liabilities</b>	<b>94,652</b>	<b>91,717</b>	<b>-</b>	<b>-</b>	<b>23,122</b>	<b>26,960</b>	<b>(21,320)</b>	<b>(22,744)</b>	<b>96,454</b>	<b>95,933</b>
<b>Total liabilities</b>	<b>184,386</b>	<b>171,772</b>	<b>75,410</b>	<b>75,387</b>	<b>121,640</b>	<b>147,824</b>	<b>(153,669)</b>	<b>(165,338)</b>	<b>227,767</b>	<b>229,645</b>
<b>Net assets</b>	<b>136,911</b>	<b>69,890</b>	<b>31,085</b>	<b>34,563</b>	<b>230,902</b>	<b>206,371</b>	<b>872</b>	<b>25,950</b>	<b>399,770</b>	<b>336,774</b>
<b>Equity</b>										
Capital contributions and retained earnings	136,911	69,890	31,085	34,563	230,902	206,371	872	25,950	399,770	336,774
<b>Total equity</b>	<b>136,911</b>	<b>69,890</b>	<b>31,085</b>	<b>34,563</b>	<b>230,902</b>	<b>206,371</b>	<b>872</b>	<b>25,950</b>	<b>399,770</b>	<b>336,774</b>

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Segments (Continued)  
For the year ended 30 June 2018  
In New Zealand Dollars

	Current Year Actual vs Estimated Actuals (Budget 2018)									
	Crown Parent		Crown Entities		State Owned Enterprises		Inter-Segment Elimination		Whole of Government	
	Actual 2018 \$000	Budget 2018 \$000	Actual 2018 \$000	Budget 2018 \$000	Actual 2018 \$000	Budget 2018 \$000	Actual 2018 \$000	Budget 2018 \$000	Actual 2018 \$000	Budget 2018 \$000
<b>Revenue</b>										
Taxation revenue	140,657	118,409	-	-	-	-	(3,089)	-	137,568	118,409
Other Sovereign revenue	17,717	17,326	419	-	658	-	(397)	(262)	18,397	17,064
Revenue from Crown funding	-	-	68,409	76,282	7,749	-	(76,158)	(76,282)	-	-
<b>Total sovereign revenue</b>	<b>158,374</b>	<b>135,735</b>	<b>68,828</b>	<b>76,282</b>	<b>8,407</b>	<b>-</b>	<b>(79,644)</b>	<b>(76,544)</b>	<b>155,965</b>	<b>135,473</b>
Sales of goods and services	441	-	6,811	6,169	42,304	-	(1,306)	-	48,250	6,169
Interest revenue	2,854	1,740	-	-	1,703	2,520	(790)	(2,520)	3,767	1,740
Rental revenue	3,024	-	-	-	3,198	-	(3,024)	-	3,198	-
Aid revenue	25,082	85,529	5,222	-	4,665	-	1,590	(7,766)	36,559	77,763
<b>Total revenue earned through operations</b>	<b>31,401</b>	<b>87,269</b>	<b>12,033</b>	<b>6,169</b>	<b>51,870</b>	<b>2,520</b>	<b>(3,530)</b>	<b>(10,286)</b>	<b>91,774</b>	<b>85,672</b>
<b>Total revenue (excluding gains and minority interest)</b>	<b>189,775</b>	<b>223,004</b>	<b>80,861</b>	<b>82,451</b>	<b>60,277</b>	<b>2,520</b>	<b>(83,174)</b>	<b>(86,830)</b>	<b>247,739</b>	<b>221,145</b>
<b>Expenses</b>										
Personnel expenses	1,269	3,421	50,851	52,534	11,031	-	2,034	-	65,185	55,955
Welfare payments	17,710	18,336	-	-	-	-	561	-	18,271	18,336
Audit Fees	-	-	27	-	404	-	(15)	-	416	-
Changes in provision for doubtful debts	-	-	609	-	318	-	-	-	927	-
Depreciation and amortisation	2,019	8,560	6,183	4,284	9,065	-	-	-	17,267	12,844
Finance costs	2,196	2,063	1	-	2,993	-	(749)	-	4,441	2,063
Aid expenses	17,748	77,763	3,170	-	-	-	(4,089)	-	16,829	77,763
Other expenses	113,672	41,078	18,159	19,464	30,287	-	(98,608)	(6,684)	63,510	53,858
<b>Total expenses (excluding losses)</b>	<b>154,614</b>	<b>151,221</b>	<b>79,000</b>	<b>76,282</b>	<b>54,098</b>	<b>-</b>	<b>(100,866)</b>	<b>(6,684)</b>	<b>186,846</b>	<b>220,819</b>
<b>Operating balance before gains and losses (OBEGAL) &amp; minority interest</b>	<b>35,161</b>	<b>71,783</b>	<b>1,861</b>	<b>6,169</b>	<b>6,179</b>	<b>2,520</b>	<b>17,692</b>	<b>(80,146)</b>	<b>60,893</b>	<b>326</b>
<b>Other gains / (losses) and minority interest</b>										
Gain / (loss) on disposal of assets	46	-	(31)	-	1	-	(1)	-	15	-
Foreign exchange gain / (loss)	(6,501)	-	-	-	(687)	-	-	-	(7,188)	-
Share of profit of associate	-	-	-	-	4,439	-	-	-	4,439	-
<b>Total other gains / (losses) and minority interest</b>	<b>(6,455)</b>	<b>-</b>	<b>(31)</b>	<b>-</b>	<b>3,753</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(2,734)</b>	<b>-</b>
<b>Net surplus</b>	<b>28,706</b>	<b>71,783</b>	<b>1,830</b>	<b>6,169</b>	<b>9,932</b>	<b>2,520</b>	<b>17,691</b>	<b>(80,146)</b>	<b>58,159</b>	<b>326</b>

Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Schedule 17 Statement of Financial Performance

Budget figures for State Owned Enterprises (SOE) are not included in the above comparison as SOEs were not included in the preparation of the Government Budget Estimate 2017/2018.

The difference between the net surplus reported in schedule 17 of \$4,190 and the above reported surplus of \$326, is the result of inter-segment eliminations.

Refer to the Fiscal Overview section for explanations on significant variances to the budget.

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Borrowings**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	Loan start date	Loan end date	Loan currency	Original loan amount \$000	Interest rate	2018 \$000	2017 \$000
<b>External borrowings</b>							
<b>Asian Development Bank</b>							
<i>Loans guaranteed by New Zealand Government</i>							
1. LN0461 Multiproject Loan	Nov-80	Aug-20	USD	1,000	1.00%	274	350
2. LN0567 Cook Islands Development Bank Project	Jul-82	Apr-22	USD	1,500	1.00%	323	367
3. LN0849 Second Multiproject Loan	Dec-87	Aug-27	SDR	2,150	1.00%	1,587	1,595
4. LN1031 Outer Islands Telecommunications Project	Oct-90	Aug-30	SDR	2,578	1.00%	3,990	3,920
5. LN1155 Second Cook Islands Development Bank Project	Mar-92	Dec-31	SDR	1,085	1.00%	1,020	997
<b>Total loans guaranteed by New Zealand Government</b>						<b>7,194</b>	<b>7,229</b>
<i>Unguaranteed loans</i>							
6. LN1171 Emergency Telecommunications Rehabilitation	Aug-92	Jun-32	SDR	349	1.00%	353	344
7. LN1309 Pearl Industry Development Project	Dec-94	Aug-34	SDR	272	1.00%	407	392
8. LN1317 Education Development Project	Feb-95	Aug-34	SDR	1,852	1.00%	2,480	2,393
9. LN1380 Third Cook Islands Development Bank Project	Jan-96	Sep-35	SDR	1,977	1.00%	2,125	2,043
10. LN1466 Economic Restructuring Program	Sep-96	Sep-36	SDR	3,430	1.00%	4,844	4,645
11. LN1588 Cyclone Emergency Rehabilitation Project	Jan-97	Jan-38	SDR	583	1.00%	847	790
12. LN1832 Waste Management Project	Dec-01	Jun-33	SDR	1,695	1.50%	2,064	2,003
13. LN2174 Cyclone Emergency Assistance	Jun-05	Jan-45	SDR	1,895	1.00%	3,481	3,235
14. LN2473 Avatiu Port Development Project	Sep-09	Nov-40	SDR	4,524	1.50%	7,369	8,399
15. LN2472 Avatiu Port Development Project	Sep-09	Nov-33	NZD	8,697	5.77%	9,140	9,380
16. LN2565 Economic Recovery Support Program	Jan-10	Oct-24	NZD	11,053	2.52%	6,532	7,536
17. LN2739 Avatiu Port Development Project (Supplementary)	Dec-11	Nov-35	NZD	5,290	2.64%	5,079	5,184
18. LN2946 Economic Recovery Support Program	Dec-12	Oct-27	NZD	11,053	2.75%	5,740	6,344
19. LN3193 Renewable Energy Sector	Jan-15	Jan-37	NZD	12,980	2.13%	7,895	1,224
20. LN3479 Disaster Resilience Program	Feb-17	Feb-32	NZD	13,950	1.43%	(24)	-
<b>Total unguaranteed loans</b>						<b>58,332</b>	<b>53,912</b>
<b>Total Asian Development Bank borrowings</b>						<b>65,526</b>	<b>61,141</b>
<b>Caisse Francaise de Development</b>							
1. Northern Group Solarisation Project Loan	Jan-99	Sep-18	EUR	1,159	0.75%	73	100
2. Rarotonga Water Supply & Electrification Loan	Jan-99	Sep-18	EUR	10,270	1.75%	257	727
<b>Total Caisse Francaise de Development borrowings</b>						<b>330</b>	<b>827</b>
<b>Export - Import Bank of China</b>							
1. Indoor Sports Stadium & Upgrade of Existing Sports Facilities	Aug-08	Aug-28	CNY	74,100	1.80%	10,394	9,596
2. Rarotonga Water Ring Main Upgrade Loan	Dec-12	Dec-32	CNY	118,000	2.00%	26,815	23,741
<b>Total Export - Import Bank of China borrowings</b>						<b>37,209</b>	<b>33,337</b>
<b>Total external borrowings</b>						<b>103,065</b>	<b>95,305</b>
<b>Total borrowings</b>						<b>103,065</b>	<b>95,305</b>

Total borrowings above includes both the Cook Islands Government and State-owned enterprise loans. This equates to the amount in the Statement of the Financial Position and represents the complete picture of whole of Government debt obligations to external parties.

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Borrowings (Continued)**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	2019 \$000	2020 \$000	2021 \$000	2022 \$000	2023 to 2027 \$000	2027 and after \$000	Total \$000
<b>Maturity profile as at 30 June 2018</b>							
<b>External borrowings</b>							
Asian Development Bank	5,531	5,531	5,531	5,531	27,655	15,747	65,526
Caisse Francaise de Development	330	-	-	-	-	-	330
Export - Import Bank of China	2,552	2,552	2,552	2,552	12,760	14,241	37,209
<b>Total external borrowings</b>	<b>8,413</b>	<b>8,083</b>	<b>8,083</b>	<b>8,083</b>	<b>40,415</b>	<b>29,988</b>	<b>103,065</b>
<b>Total borrowings</b>	<b>8,413</b>	<b>8,083</b>	<b>8,083</b>	<b>8,083</b>	<b>40,415</b>	<b>29,988</b>	<b>103,065</b>

	2018 \$000	2019 \$000	2020 \$000	2021 \$000	2022 to 2026 \$000	2026 and after \$000	Total \$000
<b>Maturity profile as at 30 June 2017</b>							
<b>External borrowings</b>							
Asian Development Bank	2,231	3,821	4,399	4,399	21,995	24,295	61,140
Caisse Francaise de Development	563	264	-	-	-	-	827
Export - Import Bank of China	795	795	795	795	3,975	26,183	33,338
<b>Total external borrowings</b>	<b>3,589</b>	<b>4,880</b>	<b>5,194</b>	<b>5,194</b>	<b>25,970</b>	<b>50,478</b>	<b>95,305</b>
<b>Total borrowings</b>	<b>3,589</b>	<b>4,880</b>	<b>5,194</b>	<b>5,194</b>	<b>25,970</b>	<b>50,478</b>	<b>95,305</b>

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Borrowings (Continued)**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	1 July 2017 \$000	Additional loan \$000	Loan repayment \$000	Currency alignment \$000	30 June 2018 \$000
<b>Movements during the year ended 30 June 2018</b>					
<b>External borrowings</b>					
Asian Development Bank	61,140	6,817	(5,391)	2,960	65,526
Caisse Francaise de Development	827	-	(592)	95	330
Export -Import Bank of China	33,338	-	(932)	4,803	37,209
<b>Total external borrowings</b>	<b>95,305</b>	<b>6,817</b>	<b>(6,915)</b>	<b>7,858</b>	<b>103,065</b>
<b>Total borrowings</b>	<b>95,305</b>	<b>6,817</b>	<b>(6,915)</b>	<b>7,858</b>	<b>103,065</b>

	1 July 2016 \$000	Additional loan \$000	Loan repayment \$000	Currency alignment \$000	30 June 2017 \$000
<b>Movements during the year ended 30 June 2017</b>					
<b>External borrowings</b>					
Asian Development Bank	65,520	-	(4,127)	(253)	61,140
Caisse Francaise de Development	1,478	-	(511)	(140)	827
Export -Import Bank of China	36,394	-	(902)	(2,154)	33,338
<b>Total external borrowings</b>	<b>103,392</b>	<b>-</b>	<b>(5,540)</b>	<b>(2,547)</b>	<b>95,305</b>
<b>Total borrowings</b>	<b>103,392</b>	<b>-</b>	<b>(5,540)</b>	<b>(2,547)</b>	<b>95,305</b>

These financial statements should be read in conjunction with the accompanying notes and policies





**Statement of Borrowings (Continued)**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	United States Dollar USD \$000	Euro EUR \$000	New Zealand Dollar NZD \$000	Chinese Yuan RMB \$000	Total \$000
<b>Currency analysis as at 30 June 2018</b>					
<b>External borrowings</b>					
Asian Development Bank	31,164	-	34,362	-	65,526
Caisse Francaise de Development	-	330	-	-	330
Export -Import Bank of China	-	-	-	37,209	37,209
<b>Total external borrowings</b>	<b>31,164</b>	<b>330</b>	<b>34,362</b>	<b>37,209</b>	<b>103,065</b>
<b>Total borrowings</b>	<b>31,164</b>	<b>330</b>	<b>34,362</b>	<b>37,209</b>	<b>103,065</b>
	<b>30.2%</b>	<b>0.3%</b>	<b>33.3%</b>	<b>36.1%</b>	
<b>Currency analysis as at 30 June 2017</b>					
<b>External borrowings</b>					
Asian Development Bank	31,473	-	29,668	-	61,141
Caisse Francaise de Development	-	827	-	-	827
New Zealand Government	-	-	-	-	-
Export -Import Bank of China	-	-	-	33,337	33,337
<b>Total external borrowings</b>	<b>31,473</b>	<b>827</b>	<b>29,668</b>	<b>33,337</b>	<b>95,305</b>
<b>Total borrowings</b>	<b>31,473</b>	<b>827</b>	<b>29,668</b>	<b>33,337</b>	<b>95,305</b>
	<b>33.0%</b>	<b>0.9%</b>	<b>31.1%</b>	<b>35.0%</b>	

Many of the loans from the Asian Development Bank are denominated in Special Drawing Rights (SDR). There is no term structure to SDR interest rates to discount future SDR cash flows at the SDR interest rate is an overnight rate. The Cooks Islands pays these loans at USD calculated using the SDR:USD spot rate. However, the SDR is based on a basket of 4 currencies (USD, EUR, JPY and GBP) whose weights change based on their strength relative to the USD. The EUR and USD comprise approximately 80% of the weighted value of an SDR. To simplify the valuation process, we have converted the SDR cash flows into EUR and USD based on their relative weights in the SDR basket at each reporting date. Each series of USD and EUR cash flows has then been discounted using a EUR or USD interest rate derived as above, then converted to NZD at spot rate.

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Commitments**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	2018 \$000	2017 \$000
<b>Commitments by type</b>		
Lease commitments	4,546	6,358
Capital commitments	-	25,000
Undisbursed bank loan facilities	4,484	2,449
<b>Total quantifiable commitments</b>	<b>9,030</b>	<b>33,807</b>
<b>Lease commitments by term</b>		
One year or less	-	-
From one to two years	276	262
From two to five years	1,033	1,091
Over five years	3,237	5,005
<b>Total lease commitments</b>	<b>4,546</b>	<b>6,358</b>

**Lease commitments**

The Cook Islands Government has commitments relating to land leases held by the Cook Islands Government Property Corporation. These are long term, usually for a 20-30 year period with perpetual renewal rights. To ensure its lease records, lease provision and commitments are complete and accurate as at 30 June 2018, the Corporation has undertaken a significant project updating their land lease records. In addition a number of land lease claims have been settled and no new material unresolved issues have come to light. The Corporation has not reviewed the balances as at 30 June 2017 or prior periods and as such the lease provision and commitments disclosed for 30 June 2017 may not be complete.

**Capital commitments**

Government was not able to obtain a Capital Commitment Schedule due to insufficient information available from Government entities responsible for administering major capital projects. The information currently available are tailored to account for budget versus actual expenditure instead of expenditure committed during the financial year via project contractual agreements.

Government will aim to have this compiled in future financial reports.

**Undisbursed bank loan facilities**

Bank of the Cook Islands has committed to lending a number of loans in the future that have not yet been drawn down. As at 30 June 2018 these undrawn loans total \$4,484,415 (2017: \$2,449,129).

**Due to the above limitation with lease and capital commitments, the audit report of these financial statements is qualified in this regard.**



**Statement of Contingencies**  
**For the year ended 30 June 2018**  
*In New Zealand Dollars*

	2018	2017
	\$000	\$000
<b>Contingent liabilities</b>		
Uncalled capital - Asian Development Bank	1,762	1,622
Legal proceedings	5,912	4,356
<b>Total quantifiable contingent liabilities</b>	<b>7,674</b>	<b>5,978</b>

**Uncalled capital**

Asian Development Bank - Cook Islands Government Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each. Using the 30 June 2018 USD foreign exchange rate of 0.6741, this equates to \$1,762,350 in NZD (2017: \$1,621,622 at 0.7326).

**Legal Proceedings**

- A \$77,000 claim has been lodged against the Ministry of Justice over a land matter dispute.
- A \$435,000 claim has been lodged against the Ministry of Health over medical negligence by health officials treatment of a former patient.
- A \$5,400,000 claim has been lodged against the Crown Law Office over wrongful prosecution.

**Contingent assets**

There are no contingent assets at year end (2017: nil)

These financial statements should be read in conjunction with the accompanying notes and policies



**Statement of Accounting Policies  
For the year ended 30 June 2018**

**Note 1: Basis of reporting**

**Statement of compliance**

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995/96 and the International Public Sector Accounting Standards (IPSAS).

The use of public resources by the Government is primarily governed by the Ministry of Finance and Economic Management Act 1995/96.

These financial statements were authorised for issue by the Minister of Finance on 30 November 2020.

**Reporting period**

The reporting period for these financial statements is for the year ended 30 June 2018.

**Basis of preparation**

These financial statements have been prepared on the basis of historical cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the Statement of Cash Flows and Taxation Revenue).

The financial statements are presented in New Zealand dollars rounded to the nearest thousand (\$000), unless separately identified.

The accounting policies included in these financial statements are the significant accounting policies for the financial statements of the Government and are listed in Note 3.

**Comparatives**

When presentation or classification of items in the financial statements are amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

**Accounting Standards issued and not yet effective and not early adopted**

The following standard has been issued and not yet effective at reporting date and which the Government has not early adopted:

IPSAS 40: Public sector combinations  
Issue date: 1 Jan 2017  
Effective date: 1 Jan 2019

**Accounting Standards effective for the year but not yet adopted**

The following standards were effective at reporting date:

IPSAS 35: Consolidated financial statements  
IPSAS 36: Investments in associates and joint ventures  
IPSAS 39: Employee benefits

Government has not yet assessed the impact of the above standards.

**Government Reporting Entity as at 30 June 2018**

The description "Consolidated Financial Statements of the Government reporting entity" and the description "Financial Statements of the Government" have the same meaning and can be used interchangeably.

These policies should be read in conjunction with the financial statements and accompanying notes



**Statement of Accounting Policies (continued)**  
**For the year ended 30 June 2018**

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**Basis of combination**

These financial statements combine the following entities using the acquisition method of combination:

**Crown Parent**

**Crown entities (44)**

Ministries (12)  
Crown agencies and offices (15)  
Island administrations (10)  
Ministerial support offices (7)

**State owned enterprises (16)**

The Government has a full residual interest in all the above entities with the exception of Telecom Cook Islands Limited and CIIC Seabed Resources Limited.

Corresponding assets, liabilities, revenue and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of controlled entities to bring the accounting policies into line with those used by the Government reporting entity.

*Refer to Schedule of Government entities on page 29 of the financial statements for a listing of the individual entities making up each segment*

**Note 2: Key assumptions and judgements**

These financial statements reflect the Government's financial position (service potential and financial capacity) as at 30 June 2018, and the financial results of operations and cash flows for the year ended on that date. Underpinning these financial statements are a number of judgements, estimations and assumptions. These include assumptions and judgements about the future, in particular, the service benefits and future cash flows in relation to existing assets and liabilities.

**Key assumptions**

The assumptions in these financial statements are based on the best information available at the time of their preparation. Given the inherent uncertainty of predicting the future, actual events are likely to differ from these assumptions, which may have a material impact on the results reported in these financial statements. Key assumptions are discussed below.

**Foreign exchange rates**

That foreign currency denominated financial assets and liabilities will be able to be 'translated' to New Zealand dollars at the exchange rate prevailing at balance date.

**Depreciation rates**

That the economic useful life of assets (used to determine depreciation rates) will equate to the estimates determined using a combination of engineering and historical evidence.

**Taxation revenue**

Government currently recognises taxation revenue on a cash basis as opposed to an accrual basis. Government is required to account for all activities on an accrual basis. The current tax system does not fully enable Government to account for taxation revenue on an accrual basis.

The current tax system also does not allow Government to distinguish taxation receipts received during the year into the periods the tax receipts relate to. The assumption is that all tax receipts received during the year are treated as current year taxation revenue.

**Tax receivables**

Government has not undertaken an assessment on the recoverability of tax receivables. Tax receivables is assumed to be fully recoverable and free from impairment.

These policies should be read in conjunction with the financial statements and accompanying notes



**Statement of Accounting Policies (continued)**  
**For the year ended 30 June 2018**

**Areas of significant estimation**

These financial statements include estimated amounts that have a number of uncertainties (discussed below).

**Banking portfolio investments - credit provisioning (Bank of the Cook Islands)**

The accounting policy relating to measuring the impairment of loans and advances requires the Bank of the Cook Islands to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

There is no general provision against loans due to the fact that historically specific provisions provided under Financial Supervisory Commission guidelines have over provided provisions materially equivalent to what the general provision would be under the accounting standards.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment charge recorded in the financial statements.

*Refer to Note 16 for details of credit impairment provisions.*

**Key judgements**

**Borrowings**

Government has obtained a number of concessional loans, mainly from the Asian Development Bank (ADB) and the Export Import Bank of China (EXIM Bank), with terms that are favourable than what is available on the open market. Under IPSAS 29, the Government is required to disclose these concessional loans at fair value by discounting all future cash payments at the prevailing market interest rate for a similar financial instrument.

At this point in time, Government have opted not to comply with this requirement due to the additional costs of compliance. Additionally, Government has considered the impact and risk of non-compliance to be very low.

**Valuation of selected fixed assets**

Certain fixed assets have been included in the statement of financial position based on valuations performed by the individual entities. This is due to difficulties experienced in obtaining information relating to these assets. This treatment is a departure from IPSAS 17 Property, Plant, and Equipment. The audit report of these financial statements is qualified in this regard. *Refer to Note 17 and 18.*

**Other uncertainties**

In addition to those items in the statement of financial position there are a number of liabilities or assets that may arise in the future but are not currently recognised. This is because they are dependent on uncertain future events occurring or the liability/asset cannot be measured reliably. If these contingencies crystallise, there will be an associated impact on the operating balance and net worth of Government. These contingencies are reported in the Statement of Contingencies of these financial statements.

**Risk management**

The Government's current risk management framework generally involves holding individual government reporting entities responsible for managing the risks that they individually face, subject to legislation and central guidance such as the MFEM Act 1995-96 and Treasury Instructions. Government-wide financial resilience is supported through relatively low debt levels, a strong financial position and effective budgeting.

With respect to its financial portfolios, the Government's financial instrument holdings expose it primarily to the financial risks of changes in interest rates, foreign exchange rates, risk of default and liquidity risk. Detailed information on the exposure to market risk and policies for managing this risk are available in the separate financial statements prepared by the entities who manage each portfolio.

There has been no significant change from the previous year to the manner in which the Government reporting entities that manage the Government's portfolios, manage and measure risks.

Derivative financial instruments are currently not used by Government (2017:nil)

These policies should be read in conjunction with the financial statements and accompanying notes



## Statement of Accounting Policies (continued)

For the year ended 30 June 2018

### Note 3: Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Government

#### Investment in associates

Associates are those entities in which Government has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when Government holds between 20% and 50% of the voting power of another entity.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include Government's share of the surplus or deficit, after adjustments to align the accounting policies with those of Government, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Government's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that Government has an obligation or has made payments on behalf of the investee.

### Revenue recognition

#### Sovereign revenue

The Government provides many services and benefits that do not give rise to revenue. Further, payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits. Such revenue is received through the exercise of the sovereign power of the Crown in Parliament.

#### Taxation revenue

Taxation revenue is recognised when a tax recognition point has occurred and the tax revenue can be reliably measured as described in the table below. Government recognises taxation revenue on a cash receipt basis.

Revenue Type	Revenue Recognition Point
Individual income tax	Individual income tax is recognised when individual tax return forms are filed and payment has been received by Revenue Management Division.
Company income tax	Company income tax is recognised when individual company tax return forms are filed and payment has been received by Revenue Management Division.
Withholding tax	Withholding tax is recognised upon payment being received by Revenue Management Division.
Value added tax (VAT)	VAT is recognised when individual monthly VAT return forms are filed and payment has been received by Revenue Management Division. VAT refunds are recognised upon payment.
Customs levies	Customs levies are recognised upon payment being received by Revenue Management Division.
Departure tax	Departure tax is included in the cost of airfares charged by Airlines to its customers. Departure tax is recognised upon payment being received by Revenue Management Division from the respective Airlines.

#### Sales of goods and services

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received.

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period for the services unless an alternative pattern of recognition better represents the stage of completion of the transaction.

These policies should be read in conjunction with the financial statements and accompanying notes

## Statement of Accounting Policies (continued)

For the year ended 30 June 2018

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### Rental revenue

Rental revenue is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental revenue.

### Dividend revenue

Dividend revenue from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

### Interest income

Interest income is accrued using the effective interest rate method. The effective interest rate discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

### Aid revenue, aid expenses and aid liability

Aid revenue relates to funding received from aid donors for specified projects. Funding received in advance is recorded as aid liability and recognised as revenue when allowable costs, capital or non-capital, are incurred and any conditions are met. Where allowable costs have been incurred but funding not received, Government recognises a receivable up to the amount of approved funding. Aid funding received that do not have any conditions are recognised as revenue.

### Donated assets

Where a physical asset is gifted or acquired by Government for nil or at a subsidised cost, the asset is recognised at fair value and the difference between the consideration provided and the fair value of the asset is recognised as aid revenue.

### Fines

Fines are economic benefits or services potentially received by the Government from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

### Expenses recognition

Expenses are recognised in the Statement of Financial Performance on an accrual basis.

### Personnel expenses

Personnel expenses are recognised on an accrual basis and include employer contributions for the government superannuation scheme.

### Welfare payments

Welfare benefits and entitlements are recognised as an expense in the period the payment has been made.

### Grants and subsidies

Where grants and subsidies are at the Government's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the government.

These policies should be read in conjunction with the financial statements and accompanying notes



## Statement of Accounting Policies (continued)

For the year ended 30 June 2018

### Operating lease

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

### Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the statement of financial performance as it accrues using the effective interest method.

### Borrowing costs

Borrowing costs are interest expenses calculated using the effective interest method  
Borrowing costs are recognised as an expense in the period in which they are incurred.

### Foreign currency transactions

Transactions in foreign currencies are translated into New Zealand dollar (NZD) using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the statement of financial performance.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at reporting date.

### Depreciation

Each part of an item of property, plant and equipment or infrastructure asset with a cost significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of property, plant and equipment and infrastructure assets are provided on a straight line basis so as to allocate the cost of assets to their estimated value over their estimated useful lives. Typically, the estimated useful lives for various asset types are follows:

Asset type	Useful life
Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and equipment	5 - 15years
Buildings and improvements	10 - 40 years
Coastal protection	25 years
Power distribution network	20 years
Road network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years
Plant and equipment Tools	4 – 5 years
Marine equipment	5 years
Leased land and leasehold improvements	Term of the lease
Specialised buildings and other buildings	15 years

These policies should be read in conjunction with the financial statements and accompanying notes

## Statement of Accounting Policies (continued)

For the year ended 30 June 2018

### Non-financial assets

#### Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation.

Residential buildings held for the primary purpose of providing low income housing have been classified as property, plant, and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of financial performance.

#### Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation.

The cost of property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Government includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

When an item of property, plant and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the statement of financial performance.

#### Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance.

#### Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Government and the cost of the item can be measured reliably.

#### Work in progress

Work in progress is recognised as cost less impairment and is not depreciated.

#### Infrastructure assets

Infrastructure assets are recorded at cost less accumulated depreciation.

Infrastructure assets are accounted for the same way as property, plant and equipment

Infrastructure assets include: roading, water networks, power networks, coastal protection systems, harbour and ports structures, waste management and airports. When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the statement of financial performance.

These policies should be read in conjunction with the financial statements and accompanying notes



## Statement of Accounting Policies (continued)

For the year ended 30 June 2018

### Intangible assets

Intangible assets are software acquisition costs and are recorded at cost less accumulated amortisation and accumulated impairment losses.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. Intangible assets might include: databases, software purchased, or software developed.

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the statement of financial performance.

Amortisation of intangible assets is on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Asset Type	Useful Life
Software, databases	3 - 5 years

### Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

### Financial assets

#### Categories of financial assets

Government does not have any financial assets classified as financial assets at fair value through surplus or deficit, held-to-maturity investments or available-for-sale financial assets. Government only holds financial assets classified as loans and receivables.

#### Recognition

Financial assets are measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognised in the statement of financial performance.

### Cash and cash equivalents

Cash and cash equivalents include cash holdings, foreign currency cash holdings, short term cash investments and are carried at amortised cost in the statement of financial position.

### Term deposits

This comprises interest-bearing deposits held with other banks and are measured at amortised cost in the statement of financial position.

### Trust accounts

Trust accounts contain funding that Government has received which have conditions attached on how the funding can be utilised. A corresponding liability is recognised upon the receipt of funding that have conditions attached.

These policies should be read in conjunction with the financial statements and accompanying notes

## Statement of Accounting Policies (continued)

For the year ended 30 June 2018

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### Banking portfolio investments (loans)

Within Government, Bank of the Cook Islands issues loans. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. They arise when the Bank provides money to a debtor with no intention of trading the loans and advances. After initial recognition they are measured at amortised cost using the effective interest method less any impairment loss.

Loans include direct finance provided to customers such as current accounts and term loans.

### Debtors and other receivables

Receivables are initially recognised at fair value and are subsequently adjusted for penalties and interest as they are charged, and as they are tested for impairment.

#### Identification and measurement of impairment

### Banking portfolio investments (loans)

Refer to Note 2 Areas of significant estimation: Banking portfolio investments - credit provisioning (Bank of the Cook Islands).

### Tax receivable

Government has not undertaken an assessment on the recoverability of tax receivables. The assumption is that tax receivable is fully recoverable and free from impairment.

### Other receivables

A receivable is considered uncollectable when there is evidence the amount will not be fully collected. The amount that is uncollectable is the difference between the amount due and the present value of the amount expected to be collected. The assessment of uncollectability is performed on a individual basis, based on past collection history and write offs.

#### Derecognition of financial assets

Government derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Government is recognised as a separate asset or liability.

## Financial liabilities

### Categories of financial liabilities

All financial liabilities are classified as other financial liabilities.

### Recognition

Financial liabilities are measured initially at fair value plus, for an item not at fair value through surplus or deficit, transaction costs that are directly attributable to its acquisition or issue.

### Other financial liabilities

Other financial liabilities and are subsequently measured at amortised cost using the effective interest rate and include: Creditors and other payables and banking customer deposits.

### Employee entitlements

Employee entitlements to salaries and wages and annual leave and other similar benefits are recognised as an expense in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid.

These policies should be read in conjunction with the financial statements and accompanying notes

**Statement of Accounting Policies (continued)**  
**For the year ended 30 June 2018**

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**Provisions**

Government recognises provisions when there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**Borrowings**

Borrowing liabilities are accounted for at amortised cost on the statement of financial position. Any changes are recognised in the statement of financial performance. Borrowings or the proportion of borrowings expected to be settled within 12 months of balance date are disclosed as current liabilities in the statement of the financial position. All other borrowings are disclosed as non-current liabilities.

**Pension liabilities**

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest actuarial value of the Government's liability for pension payments. There are no pension liabilities accruing to the Government as a result of Government employees' membership of the Government Superannuation Fund (New Zealand).

**Other liabilities**

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed and is provided for on a pro-rata basis in the statement of financial position.

Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged cancelled or expires.

**Cash flow**

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date. Included in the cash flow statement are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Government.

Investing activities are the acquisition and disposal of long term assets and other investments.

Operating activities identify how much the Government received from its actual operations.

Cash flow information allows users to ascertain how the Government raised the cash it required to fund its activities and the manner in which that cash was utilised.

Both the direct and indirect cash flow methods have been applied in these financial statements.

**Commitments**

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Commitments are classified as:

--> Capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and

--> Lease commitments: non-cancellable operating leases with a lease term exceeding one year.

Interest commitments on debts, commitments for funding, inventory and commitments relating to employment contracts are not separately reported as commitments.

These policies should be read in conjunction with the financial statements and accompanying notes



**Statement of Accounting Policies (continued)****For the year ended 30 June 2018****Contingent liabilities and contingent assets**

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is more than remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

**Changes in accounting policies**

The accounting policies are consistent with the those applied in the preparation of Governments annual financial statements for the year ended 30 June 2017, except for the change in accounting policy regarding the recognition of expenditure paid directly to suppliers for goods and services by various development partners and services in kind.

**Expenditure paid directly to suppliers for goods and services by development partners and services provided in kind**

Government will no longer be recognising expenditure paid directly to suppliers for goods and services by various development partners and services provided in kind. It is difficult for Government to obtain sufficient information to reliably measure these activities.

**Impact of the change**

	<b>Actual 2017 \$000</b>	<b>Adjustment</b>	<b>Restated 2017 \$000</b>
Aid revenue	29,357	(8,008)	21,349
Aid expenses	20,693	(8,008)	12,685
Net surplus	61,772	-	61,772

These policies should be read in conjunction with the financial statements and accompanying notes



**Notes to the Financial Statements**  
**For the year ended 30 June 2018**

	<b>Budget 2018 \$000</b>	<b>Actual 2018 \$000</b>	<b>Actual 2017 \$000</b>
<b>Note 4: Taxation revenue</b>			
<b>Direct taxation</b>			
Individual income tax	23,057	28,197	23,048
Company income tax	12,900	18,999	11,537
Withholding tax	-	1,842	1,683
<b>Total direct taxation</b>	<b>35,957</b>	<b>49,038</b>	<b>36,268</b>
<b>Indirect taxation</b>			
Value added tax	58,745	63,580	58,058
Customs levies	13,548	14,179	14,443
Departure tax	10,159	10,771	10,117
<b>Total indirect taxation</b>	<b>82,452</b>	<b>88,530</b>	<b>82,618</b>
<b>Total taxation revenue</b>	<b>118,409</b>	<b>137,568</b>	<b>118,886</b>

*Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Schedule 17  
Revenue Levied on Behalf of the Crown*

**Taxation Revenue**

The Cook Islands tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when tax payers fail to comply with tax laws, for example, if they do not report all of their income.

**Recognition**

Government currently recognises taxation revenue on a cash basis as opposed to an accrual basis. Accrual basis recognises taxation revenue in the period the taxable event occurs. Government is required to account for all activities on an accrual basis. The current tax system does not fully enable Government to account for taxation revenue on an accrual basis.

**Key assumptions**

Government recognises taxation revenue on a daily basis based on the Cashier Tax Revenue Summary Reports generated by the Revenue Management Division. The Cashier Tax Revenue Summary Reports details the total tax receipts received per major tax type, however, it does not distinguish the period the tax receipts relate to. The assumption is that all tax receipts received during the year are treated as current year taxation revenue.

As taxation revenue is accounted for on a cash receipt basis, Government currently does not account for the following:

1. Taxpayers that have not filed their respective tax returns
2. Taxpayers that have filed their respective tax returns but have not paid

**Due to the above limitation with taxation revenue, the audit report of these financial statements is qualified in this regard.**



**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2018**

**Note 4: Taxation revenue (continued)**

**Tax Amnesty**

In June 2017, there was an amendment to the Income Tax Act 1997 and the Value Added Tax Act 1997 (Tax Acts), giving legal effect to the Tax Amnesty. The Tax Amnesty came into effect on 1 August 2017.

The main purpose of the Tax Amnesty was to put a large number of taxpayers in an improved financial position, through the remission of additional taxes (and other taxes where appropriate), so that these taxpayers could better contribute to the future economic growth of the Cook Islands. The Tax Amnesty allowed taxpayers who had unpaid tax and outstanding tax returns, to come forward and be compliant with their tax obligations into the future. It provided taxpayers relief from paying additional taxes if the outstanding core tax was paid or placed under payment arrangement.

In January 2018, a further amendment was made to the Tax Acts. The amendment allows for the remission of all tax liabilities for periods before 1 January 2010. This means, that taxpayers were not required to file outstanding tax returns or pay outstanding tax liabilities for tax periods before 1 January 2010.

A total of 1,182 Tax Amnesty applications was received and from these applications, \$21.8 million of core tax was assessed. Of the \$21.8 million assessed, \$19.4 million was received and \$2.4 million is currently under payment arrangements.

Apart from tax recovered, the Tax Amnesty also allowed for remittance of additional tax and writing off of tax prior to January 2010. Total tax written off during the Tax Amnesty amounted to \$23.5 million. Due to Governments tax recognition criteria being on a cash basis, the \$23.5 million Tax Amnesty write off has not been accounted for in these financial statements. Refer to breakdown of the Tax Amnesty write off below.

**Breakdown of tax amnesty write-off**

<b>Tax Year</b>	<b>Individual Income tax \$000</b>	<b>Company Income tax \$000</b>	<b>Withholding tax \$000</b>	<b>Value added tax \$000</b>	<b>Turnover tax \$000</b>	<b>Grand Total \$000</b>
2000 and prior	1,018	481	167	254	778	2,698
2001	564	39	27	177	-	807
2002	398	115	30	636	-	1,179
2003	694	152	44	408	-	1,298
2004	581	119	36	562	-	1,298
2005	853	64	153	1,124	-	2,194
2006	921	353	73	984	-	2,331
2007	839	140	8	1,119	-	2,106
2008	838	79	107	1,331	-	2,355
2009	901	68	24	1,082	-	2,075
2010	349	160	1	181	-	691
2011	303	262	7	186	-	758
2012	281	222	1	148	-	652
2013	325	310	6	152	-	793
2014	210	316	3	162	-	691
2015	229	205	9	258	-	701
2016	158	166	3	198	-	525
2017	28	158	7	95	-	288
2018	3	10	1	8	-	22
<b>Total</b>	<b>9,493</b>	<b>3,419</b>	<b>707</b>	<b>9,065</b>	<b>778</b>	<b>23,462</b>
<b>Percentage of total</b>	<b>40%</b>	<b>15%</b>	<b>3%</b>	<b>39%</b>	<b>3%</b>	<b>100%</b>

**Due to the above limitation with the Tax Amnesty, the audit report of these financial statements is qualified in this regard.**





Notes to the Financial Statements (continued)  
For the year ended 30 June 2018

	Budget 2018 \$000	Actual 2018 \$000	Actual 2017 \$000
<b>Note 5: Other sovereign revenue</b>			
<b>Fees, fines, penalties and licenses</b>			
Registration fees	1,601	2,173	1,550
Road transport licensing	950	1,247	1,045
Court fines	70	47	37
Other fees, fines and levies	317	245	559
<b>Total fees, fines, penalties and licenses</b>	<b>2,938</b>	<b>3,712</b>	<b>3,191</b>
<b>Other Crown revenue</b>			
Currency and numismatic revenue	1,226	511	644
Fisheries revenue	12,705	12,797	18,057
Tattslotto income	120	172	153
Other	75	1,205	1,895
<b>Total other Crown revenue</b>	<b>14,126</b>	<b>14,685</b>	<b>20,749</b>
<b>Total other sovereign revenue</b>	<b>17,064</b>	<b>18,397</b>	<b>23,940</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Schedule 17 Revenue Levied on Behalf of the Crown</i>			
<b>Note 6: Sales of goods and services</b>			
<b>Crown parent</b>			
Sales of goods	-	441	264
<b>Total Crown parent sales of goods</b>	<b>-</b>	<b>441</b>	<b>264</b>
<b>Crown entities</b>			
Sales of goods	-	317	272
Rendering of services	6,169	6,385	8,382
<b>Total Crown entities sales of goods and services</b>	<b>6,169</b>	<b>6,702</b>	<b>8,654</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Schedule 17.1 Statement of Financial Performance</i>			
<b>State owned enterprises (SOEs)</b>			
Airport landing fees		6,707	5,468
Electricity sales		20,608	18,198
Fees and interest on banking portfolio assets		8,230	7,956
Port services		3,423	3,064
Other		2,139	1,191
<b>Total State owned enterprises sales of goods and services</b>		<b>41,107</b>	<b>35,877</b>
<b>Total sales of goods and services</b>		<b>48,250</b>	<b>44,795</b>

\* There are no budget figures for revenue generated by SOEs as they are not included in the preparation of the Government Budget Estimate 2017/2018

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

	Budget 2018 \$000	Actual 2018 \$000	Actual 2017 \$000
<b>Note 7: Personnel expenses</b>			
Gross salaries and wages - Crown Entities	52,534	50,851	47,330
Gross salaries and wages - State Owned Enterprise	-	11,031	9,816
Gross salaries and wages - Head of Ministries	1,230	1,269	1,216
Gross salaries and wages - Members of Parliament	2,191	2,034	1,987
<b>Total personnel expenses</b>	<b>55,955</b>	<b>65,185</b>	<b>60,349</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1</i>			
<b>Note 8: Welfare payments</b>			
Old age benefits	12,281	12,294	12,243
Child benefits	4,037	4,117	2,720
Destitute and infirm benefits	528	529	531
Caregiver's allowance	356	317	-
Christmas Bonus	277	281	-
Other	857	733	699
<b>Total welfare payments</b>	<b>18,336</b>	<b>18,271</b>	<b>16,193</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Table 7.15</i>			
<b>Note 9: Finance costs</b>			
Interest expenses on foreign-sourced loans	2,063	2,198	2,221
Interest expenses on domestic loans	-	2,243	2,853
<b>Total finance costs</b>	<b>2,063</b>	<b>4,441</b>	<b>5,074</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Schedule 17.1 Statement of Financial Performance</i>			
<b>Note 10: Other expenses</b>			
<b>Administered payments</b>			
Private school funding	2,147	-	2,147
Tertiary training institutions	760	-	760
Air New Zealand underwrite	12,000	11,208	9,106
Tourism marketing	5,400	1,813	-
Patient referrals and pharmaceutical supplies	1,218	373	1,530
Te Maeva Nui cost	723	757	570
National superannuation fund	243	67	134
Community cleaning program (Vaka maintenance)	400	401	393
Land rental payments	714	449	-
Government Funded Scholarships	910	-	-
Waste management	545	494	-
Inter Island Shipping	500	37	-
Welfare organisations grants	881	1,115	-
Other	5,732	4,618	5,867
<b>Total administered payments</b>	<b>32,173</b>	<b>21,332</b>	<b>20,507</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Section 7.6 Payments on Behalf of the Crown(POBOC)</i>			

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)

For the year ended 30 June 2018

	Budget 2018 \$000	Actual 2018 \$000	Actual 2017 \$000
<b>Note 10: Other expenses (continued)</b>			
<b>Payments on behalf of the Crown</b>			
Members of Parliament travel cost	320	443	482
International subscriptions	689	707	596
CICC mission training center grant	600	650	-
Other expenses	462	358	-
<b>Total payments on behalf of the Crown</b>	<b>2,071</b>	<b>2,158</b>	<b>1,078</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Section 7.6 Payments on Behalf of the Crown(POBOC)</i>			
<b>Other operating expenses</b>			
Fuel and oil	-	9,574	8,490
Communications	-	1,689	1,545
Repairs and maintenance	-	7,126	14,819
Office supplies and consumables	-	976	1,742
Professional services	-	1,727	2,273
Advertising and marketing	-	1,884	2,347
Insurance	-	1,311	1,234
Travel costs	-	1,847	1,777
Rentals and operating lease costs	-	48	114
Contingency funds	150	1,034	-
Unsubstantiated consolidated eliminating entries	-	(941)	(16,867)
Other expenses	-	13,745	10,932
<b>Total other operating expenses</b>	<b>150</b>	<b>40,020</b>	<b>28,406</b>
<b>Total other expenses</b>	<b>34,394</b>	<b>63,510</b>	<b>49,991</b>

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)  
For the year ended 30 June 2018

	%	Total 2018 - 2017 \$000	Budget 2018 \$000	Actual 2018 \$000	Restated 2017 \$000
<b>Note 11: Aid activities</b>					
<b>Aid revenue</b>					
New Zealand	66.2%	38,348	40,273	23,177	15,171
European Union	4.7%	2,747	8,272	2,302	445
Green Climate Fund	0.6%	342	870	223	119
Global Environment Fund	10.8%	6,268	9,128	5,360	908
Germany	0.6%	338	595	317	21
India	1.5%	865	261	162	703
Japan	0.4%	236	2,308	150	86
United Nations Development	5.2%	3,032	1,918	848	2,184
Others	9.9%	5,732	14,140	4,020	1,712
<b>Total aid revenue</b>	<b>100%</b>	<b>57,908</b>	<b>77,763</b>	<b>36,559</b>	<b>21,349</b>
<i>Source of budget figures: Cook Islands Government Budget Estimates 2017/2018 Book 1 - Table 15.1 Official Development Assistance Budget by Development Partner</i>					
<b>Aid expenses</b>					
Economic Development	1.0%	283	574	61	222
Environmental Protection	28.5%	8,415	22,487	4,361	4,054
Health Development	2.1%	621	456	500	121
Housing & Community Amenities	4.8%	1,410	2,060	485	925
Public Sector Reform	56.7%	16,735	43,704	9,372	7,363
Social Protection	0.8%	243	908	243	-
Others	6.1%	1,807	7,574	1,807	-
<b>Total aid expenses</b>	<b>100%</b>	<b>29,514</b>	<b>77,763</b>	<b>16,829</b>	<b>12,685</b>
<b>Aid capital expenses</b>					
Aid funded property, plant and equipment		28,394	-	19,730	8,664
<b>Total aid capital expenses</b>		<b>28,394</b>	<b>-</b>	<b>19,730</b>	<b>8,664</b>
<b>Total aid expenses</b>		<b>57,908</b>	<b>77,763</b>	<b>36,559</b>	<b>21,349</b>
<b>Breakdown of Aid funded property, plant and equipment</b>					
Renewable Energy Project - South		5,680	-	5,680	-
Te Mato Vai		7,334	-	7,334	-
Tereora College		10,790	-	4,665	6,125
Various assets		4,590	-	2,051	2,539
<b>Total aid funded property, plant and equipment</b>		<b>28,394</b>	<b>-</b>	<b>19,730</b>	<b>8,664</b>

**Aid funding received from donors**

Aid revenue relates to funding received from aid donors for specified projects. Funding received in advance is recorded as aid liability and recognised as revenue when allowable costs, capital or non-capital, are incurred and any conditions are met. Where allowable costs have been incurred but funding not received, Government recognises a receivable up to the amount of approved funding. Aid funding received that do not have any conditions are recognised as revenue.

**Donated assets**

Where a physical asset is gifted or acquired by Government for nil or at a subsidised cost, the asset is recognised at fair value and the difference between the consideration provided and the fair value of the asset is recognised as aid revenue.

Notes to the Financial Statements (continued)  
For the year ended 30 June 2018

Project Name	%	Total 2018 - 2017 \$000	Budget 2018 \$000	Actual 2018 \$000	Restated 2017 \$000
<b>Aid funded projects</b>					
<b>New Zealand</b>					
Activity: NZA0096 - Te Mato Vai	12.6%	7,305		7,220	85
Activity: NZA0165 - Core Sector Support	29.7%	17,206		9,248	7,959
Activity: NZA0168 - Sanitation Upgrade Programme - Manihiki Lagoon	0.7%	422		87	335
Activity: NZA0169 - MTVKTV - Sanitation Upgrade Programme	3.7%	2,134		1,607	528
Activity: NZA0184 - Tereora Reconstruction Phase One	18.5%	10,706		4,680	6,026
Activity: NZA0198 - PCP Manatua Submarine Cable Contribution	0.2%	110		110	-
Other New Zealand Projects	0.8%	464		225	239
<b>Total New Zealand projects</b>	<b>66.2%</b>	<b>38,348</b>	<b>40,273</b>	<b>23,177</b>	<b>15,171</b>
<b>European Union</b>					
Activity: EUF0019 - Renewable Energy (Southern Group)	2.9%	1,688		1,688	-
Activity: EUF0199 - EU-CKI Sustainable Fisheries Partnership Programme	1.6%	919		594	325
Other European Union Projects	0.2%	140		20	120
<b>Total European Union projects</b>	<b>4.7%</b>	<b>2,747</b>	<b>8,272</b>	<b>2,302</b>	<b>445</b>
<b>Green Climate Fund</b>					
Activity: GCF0173 - Green Climate Fund - Readiness 2	0.4%	211		211	-
Other Green Climate Fund Projects	0.2%	131		13	119
<b>Total Green Climate Fund projects</b>	<b>0.6%</b>	<b>342</b>	<b>870</b>	<b>223</b>	<b>119</b>
<b>Global Environment Fund</b>					
Activity: GEF0098 - Ridge to Reef (National)	3.1%	1,809		1,314	495
Activity: GEF0148 - Southern Group Renewable Project	6.8%	3,923		3,923	-
Other Global Environment Fund Projects	0.9%	536		123	412
<b>Total Global Environment Fund projects</b>	<b>10.8%</b>	<b>6,267</b>	<b>9,128</b>	<b>5,360</b>	<b>908</b>
<b>Germany</b>					
Activity: GIZ0185 - Northern Water Project - Phase 2	0.6%	337		317	21
<b>Total Germany project</b>	<b>0.6%</b>	<b>337</b>	<b>595</b>	<b>317</b>	<b>21</b>
<b>India</b>					
Activity: IND0029 - India Grant Fund 2016-17	1.5%	857		154	703
Other India Projects	0.0%	8		8	-
<b>Total India projects</b>	<b>1.5%</b>	<b>865</b>	<b>261</b>	<b>162</b>	<b>703</b>

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)  
For the year ended 30 June 2018

Project Name	%	Total 2018 - 2017 \$000	Budget 2018 \$000	Actual 2018 \$000	Restated 2017 \$000
<b>Aid funded projects (continued)</b>					
<b>Japan</b>					
Various Japan Projects	0.4%	236		150	86
<b>Total Japan projects</b>	0.4%	236	2,308	150	86
<b>United Nations Development</b>					
Activity: UNDO067 - Western Pacific Multi Country Integrated HIV TB Programme	1.1%	621		500	121
Activity: UNF0067 - Strengthening Resilience of Island Communities	3.4%	1,943		280	1,664
Other United Nations Development Projects	0.8%	469		69	400
<b>Total United Nations Development projects</b>	5.2%	3,032	1,918	848	2,184
<b>Other aid funded projects</b>					
Other aid funded projects	9.9%	5,734		4,021	1,713
<b>Total other aid funded projects</b>	9.9%	5,734	14,140	4,021	1,713
<b>Total aid funded projects</b>	<b>100%</b>	<b>57,908</b>	<b>77,763</b>	<b>36,559</b>	<b>21,349</b>

These notes should be read in conjunction with the financial statements and policies



**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2018**

	2018	2017
	\$000	\$000
<b>Note 12: Cash and cash equivalents</b>		
Cash on hand	1,345	1,173
Cash at bank	40,527	62,799
<b>Total cash and cash equivalents</b>	<b>41,872</b>	<b>63,972</b>
<b>Term Deposits</b>		
Less than 12 months	124,477	82,928
Over 12 months	1,000	1,556
<b>Total term deposits</b>	<b>125,477</b>	<b>84,484</b>

Short term deposits are made for varying periods, depending on the immediate cash requirements of the Government and earn interest at the respective short term deposit rates. Interest rates range from 1.50% to 4.25% (2017: 1.55% to 3.35%)

**Cook Islands Loan Repayment Fund**

Included in the above cash at bank and term deposits are funds that have been quarantined for the repayment of borrowings as per the Cook Islands Loan Repayment Fund 2014.

	2018	2017
	\$000	\$000
<b>Loan repayment funds</b>		
Opening balance	18,420	16,687
Plus: Interest earned	373	345
Plus: Current year contributions	9,399	6,928
Less: Current year loan repayments	6,915	5,540
<b>Total loan repayment funds</b>	<b>21,277</b>	<b>18,420</b>
<b>Note 13: Inventory</b>		
<b>Inventory held of use</b>		
Diesel and oil for electricity generation	5,860	6,051
Bitumen and spare parts	297	935
Pharmaceuticals and hospital supplies	930	638
Other	286	69
<b>Total inventory held for use</b>	<b>7,373</b>	<b>7,693</b>
<b>Inventory held for sale</b>		
Numismatic coins	1,146	1,170
Pearls	155	339
Other	-	67
<b>Total inventory held for sale</b>	<b>1,301</b>	<b>1,576</b>
Provision for obsolete stock	-	(44)
<b>Total inventory</b>	<b>8,674</b>	<b>9,225</b>

These notes should be read in conjunction with the financial statements and policies



**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2018**

	2018	2017
	\$000	\$000
<b>Note 14: Debtors and other receivables</b>		
Taxes receivable	9,270	11,092
Accounts receivable	11,752	15,414
Prepayments	1,374	1,593
Interest receivable	1,624	1,528
Accrued revenue	375	2,471
Dividends receivable	784	938
Aid receivable	1,514	1,417
<b>Total debtors and other receivables (gross)</b>	<b>26,693</b>	<b>34,453</b>
Provision for doubtful debts	(39)	(1,247)
<b>Total debtors and other receivables (net)</b>	<b>26,654</b>	<b>33,206</b>
Movements in the provision for uncollectibility of accounts receivables are as follows:		
Balance at 1 July	(1,247)	(1,244)
Additional provisions made during the year	(927)	(1,567)
Receivables written off during the year	-	-
Provisions reversed during the year	2,135	1,564
<b>Balance at 30 June</b>	<b>(39)</b>	<b>(1,247)</b>

**Tax receivables**

**Recognition**

Year-end tax receivable figures are provided by the Revenue Management Division. Due to the current limitations of the tax system, Government recognises taxation revenue on a cash basis as opposed to on an accrual basis. The tax receivable balances above do not take into consideration taxpayers that have not filed their respective tax returns. It only accounts for taxpayers that have filed their respective returns but have not paid.

**Key assumptions**

Government has not undertaken an assessment on the recoverability of tax receivables. The assumption is that tax receivable is fully recoverable and free from impairment.

*Refer to Note 4 Taxation revenue for further information regarding the \$23.5 million Tax Amnesty write off.*

**Due to the above limitation with tax receivables, the audit report of these financial statements is qualified in this regard.**

	2018	2017
	\$000	\$000
<b>Note 15: Investments in shares and associates</b>		
<b>Investment in shares</b>		
Asian Development Bank	161	161
<b>Total investments in shares</b>	<b>161</b>	<b>161</b>

There have been no changes to investments in shares during the 2018 period.

Shares held at year end relate to the Government's investment in Asian Development Bank (ADB). The shares are held within Government by Cook Islands Government Property Corporation (CIGPC).

As at 31 December 2018, ADB had total equity of USD50.984 million. CIGPC holds Cook Islands share being 0.003%. This equates to USD1.529 million.



**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2018**

	2018 \$000	2017 \$000
<b>Note 15: Investments in shares and associates (continued)</b>		
<b>Share of net assets of associate</b>		
Carrying amount at beginning of year	9,718	8,531
Investment at cost	26	-
Equity accounted earnings of associate	4,439	3,587
Dividends from associate	(3,200)	(2,400)
<b>Total share of net assets of associate</b>	<b>10,983</b>	<b>9,718</b>
<b>Total investments in shares and associate</b>	<b>11,144</b>	<b>9,879</b>

These financial statements include the financial statements of Government and the controlled entities listed in the following table:

Associate entities are those in which Government has a substantial shareholding and in whose commercial and financial policy decisions it participates but does not have any controlling interest.

Telecom Cook Islands Limited is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands. Government's interest in Telecom Cook Islands Limited is held by Cook Islands Telecommunication Holdings Limited.

CIIC Seabed Resources Limited was established during the 2018 period. The principal activity of CIIC Seabed Resources Limited is the exploration, classification, exploitation, marketing and selling of polymetallic nodules within the Cook Islands Exclusive Economic Zone and the Cook Islands assigned area within the Clarion Clipperton Zone. The Company is 50% owned by the Cook Islands Investment Corporation and 50% by GSR-CI Limited. The ultimate Parent Company of GSR-CI Limited is Global Sea Mineral Resources NV, a Company incorporated and registered in Belgium.

	Ownership	Total Assets	Total Liabilities	Total Income	Total Profit/ (Loss)
<b>2017</b>					
Telecom Cook Islands Limited <i>(12 months to 31/12/16)</i>	40%	31,211	9,644	26,939	8,317
CIIC Seabed Resources Limited	-	-	-	-	-
<b>2018</b>					
Telecom Cook Islands Limited <i>(12 months to 31/12/17)</i>	40%	36,216	28,291	27,751	9,162
CIIC Seabed Resources Limited <i>(8 months to 30/6/18)</i>	50%	3,798	3,800	-	(51)

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)  
For the year ended 30 June 2018

	2018	2017
	\$000	\$000
<b>Note 16: Banking portfolio investments (held by Bank of the Cook Islands)</b>		
<b>Summary of loans portfolio by industry sector</b>		
Agriculture	3	14
Fishing	40	-
Pearls	-	6
Consumer	10,601	10,374
Business	20,104	19,762
Housing	38,648	36,282
Staff	3,350	2,844
Tourism	11,730	11,336
Hire purchase loans	-	6
<b>Total banking portfolio investments (gross)</b>	<b>84,476</b>	<b>80,624</b>
<b>Summary of loans portfolio by maturity</b>		
Current banking portfolio investments	10,064	9,132
Non-current banking portfolio investments	67,876	65,249
<b>Total banking portfolio investments (gross)</b>	<b>77,940</b>	<b>74,381</b>
<b>Current banking portfolio investments</b>		
Current banking portfolio investments	10,064	9,132
Provision for bad and doubtful loans	-	-
<b>Net current banking portfolio investments</b>	<b>10,064</b>	<b>9,132</b>
<b>Non-current banking portfolio investments</b>		
Non-current banking portfolio investments	74,412	71,492
Provision for bad and doubtful loans	(6,536)	(6,243)
<b>Net non-current banking portfolio investments</b>	<b>67,876</b>	<b>65,249</b>
<b>Total banking portfolio investments (net)</b>	<b>77,940</b>	<b>74,381</b>

All loans have been made at varying interest rates, terms and securities. Loans attract the following interest rates:

- Housing - 5.40% to 16.5% (2017: 5.40% to 15.49%)
- Development (including business) - 7.75% to 20.50% (2017: 7.75% to 20.50%)
- Consumer - 10.50% to 16.50% (2017: 10.50% to 16.50%)
- Government - 5.25% (2017: N/A)

Notes to the Financial Statements (continued)

For the year ended 30 June 2018

**Note 17: Property, plant, and equipment**

**Breakdown of property, plant and equipment and further information**

Movement for each class of property, plant and equipment are as follows:

	Computer Equipment \$000	Furniture & Fittings \$000	Motor Vehicles \$000	Plant & Equipment \$000	Buildings \$000	Land \$000	Work in Progress \$000	Unexplained Movements \$000	Total \$000
<b>Cost</b>									
Balance as at 1 July 2016	7,584	3,783	12,593	76,130	80,679	15,330	7,030	-	203,129
Opening balance adjustments	254	(106)	168	432	221	16	(6,718)	-	(5,733)
Adjusted balance 1 July 2016	7,838	3,677	12,761	76,562	80,900	15,346	312	-	197,396
Additions	600	120	762	3,145	1,691	797	6	-	7,121
Disposals	457	81	602	6,185	97	-	-	-	7,422
Transfers	(106)	-	-	190	-	-	-	-	84
<b>Balance as at 30 June 2017</b>	<b>7,875</b>	<b>3,716</b>	<b>12,921</b>	<b>73,712</b>	<b>82,494</b>	<b>16,143</b>	<b>318</b>	-	<b>197,179</b>
<b>Accumulated depreciation and impairment losses</b>									
Balance as at 1 July 2016	5,597	2,558	9,266	36,083	28,193	133	4	-	81,834
Opening balance adjustments	400	(15)	228	3,214	(965)	-	5	-	2,867
Adjusted accumulated balance 1 July 2016	5,997	2,543	9,494	39,297	27,228	133	9	-	84,701
Depreciation	811	249	946	4,916	2,377	230	-	-	9,529
Accumulated depreciation on disposals	515	77	511	5,725	33	-	-	-	6,861
Transfers	-	-	(1)	(38)	-	-	-	-	(39)
Unexplained movements	-	-	-	-	-	-	-	(2,481)	(2,481)
<b>Balance as at 30 June 2017</b>	<b>6,293</b>	<b>2,715</b>	<b>9,928</b>	<b>38,450</b>	<b>29,572</b>	<b>363</b>	<b>9</b>	<b>(2,481)</b>	<b>84,849</b>
<b>Carrying amount</b>									
<b>As at 30 June 2017</b>	<b>1,582</b>	<b>1,001</b>	<b>2,993</b>	<b>35,262</b>	<b>52,922</b>	<b>15,780</b>	<b>309</b>	<b>2,481</b>	<b>112,330</b>
<b>Cost</b>									
Balance as at 1 July 2017	7,875	3,716	12,921	73,712	82,494	16,143	318	-	197,179
Opening balance adjustments	(39)	(3)	(151)	(4,853)	(536)	-	(26)	-	(5,608)
Adjusted balance 1 July 2017	7,836	3,713	12,770	68,859	81,958	16,143	292	-	191,571
Additions	780	126	839	7,861	14,341	-	-	-	23,947
Disposals	495	78	344	477	(19)	-	15	-	1,390
Transfers	1	-	-	415	-	-	-	-	416
Unexplained movements	-	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>8,122</b>	<b>3,761</b>	<b>13,265</b>	<b>76,658</b>	<b>96,318</b>	<b>16,143</b>	<b>277</b>	-	<b>214,544</b>
<b>Accumulated depreciation and impairment losses</b>									
Adjusted balance 1 July 2017	6,293	2,715	9,928	38,450	29,572	363	9	-	87,330
Opening balance adjustments	-	-	-	-	-	-	-	-	-
Adjusted accumulated balance 1 July 2017	6,293	2,715	9,928	38,450	29,572	363	9	-	87,330
Depreciation	806	200	889	5,087	2,745	6	-	-	9,733
Accumulated depreciation on disposals	486	71	406	486	-	-	-	-	1,449
Transfers	(1)	-	-	3,022	-	-	-	-	3,021
Unexplained movements	-	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>6,612</b>	<b>2,844</b>	<b>10,411</b>	<b>46,073</b>	<b>32,317</b>	<b>369</b>	<b>9</b>	-	<b>98,635</b>
<b>Carrying amount</b>									
<b>As at 30 June 2018</b>	<b>1,510</b>	<b>917</b>	<b>2,854</b>	<b>30,585</b>	<b>64,001</b>	<b>15,774</b>	<b>268</b>	-	<b>115,909</b>

**Ownership and completeness of assets**

These assets disclosed in these financial statements are not a complete presentation of all assets falling under the ownership and/or control of the Government. These assets presented are included on the basis of the current understanding of the entities at the time the financial statements were prepared.

**Entities valuation**

Certain historical fixed assets under the control of the Government have been included in the statement of financial position based on valuations performed by the entities or have been recorded in the financial statements at nil value.

This is due to loss of accounting records.

This treatment is a departure from IPSAS 17 Property, plant and equipment which notes an appraisal of an asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification. The audit report of these financial statements is qualified in this regard.

**The audit report of these financial statements is qualified in this regard.**

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)  
For the Year Ended 30 June 2018

**Note 18: Infrastructure assets**  
**Breakdown of infrastructure assets and further information**  
Movement for each class of infrastructure assets are as follows:

	Roading	Power Network	Harbour & Ports	Airport	Coastal Protection	Water	Waste Management	Work in Progress	Renewable Energy	Unexplained Movements	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost</b>											
Balance as at 1 July 2016	22,078	24,415	40,804	52,304	929	4,929	5,066	34,056	-	(2,571)	182,010
Opening balance adjustments	1,265	(1,288)	(87)	(123)	-	(181)	1	7,695	-	-	7,282
Adjusted balance 1 July 2016	23,343	23,127	40,717	52,181	929	4,748	5,067	41,751	-	(2,571)	189,292
Additions	(2,141)	187	309	72	-	2,584	(1,679)	17,349	603	-	17,284
Disposals	-	1,120	-	-	-	-	-	-	-	-	1,120
Transfers	-	133	-	-	-	-	-	(11,514)	-	-	(11,381)
Unexplained movements	-	-	-	-	-	-	-	-	-	828	828
<b>Balance as at 30 June 2017</b>	<b>21,202</b>	<b>22,327</b>	<b>41,026</b>	<b>52,253</b>	<b>929</b>	<b>7,332</b>	<b>3,388</b>	<b>47,586</b>	<b>603</b>	<b>(1,743)</b>	<b>194,903</b>
<b>Accumulated depreciation and impairment losses</b>											
Balance as at 1 July 2016	4,730	12,164	4,915	7,945	659	1,856	1,051	176	-	442	33,938
Opening balance adjustments	353	(82)	(57)	(7)	-	925	-	57	-	(442)	747
Adjusted accumulated balance 1 July 2016	5,083	12,082	4,858	7,938	659	2,781	1,051	233	-	-	34,685
Depreciation	520	830	1,489	1,603	37	397	294	37	-	245	5,452
Transfers	-	20	(14)	-	-	-	-	-	-	-	6
Accumulated depreciation on disposals	-	530	-	-	-	-	-	-	-	-	530
<b>Balance as at 30 June 2017</b>	<b>5,603</b>	<b>12,402</b>	<b>6,333</b>	<b>9,541</b>	<b>696</b>	<b>3,178</b>	<b>1,345</b>	<b>270</b>	<b>-</b>	<b>245</b>	<b>39,613</b>
<b>Carrying amount</b>											
<b>As at 30 June 2017</b>	<b>15,599</b>	<b>9,925</b>	<b>34,693</b>	<b>42,712</b>	<b>233</b>	<b>4,154</b>	<b>2,043</b>	<b>47,316</b>	<b>603</b>	<b>(1,988)</b>	<b>155,290</b>
<b>Cost</b>											
Balance as at 1 July 2017	21,202	22,327	41,026	52,253	929	7,332	3,388	47,586	603	(1,743)	194,903
Opening balance adjustments	-	-	-	-	-	-	-	-	-	1,743	1,743
Adjusted balance 1 July 2017	21,202	22,327	41,026	52,253	929	7,332	3,388	47,586	603	-	196,646
Additions	-	1,698	107	276	-	4	-	34,888	(1)	-	36,972
Disposals	-	-	18	(67)	-	-	-	23	-	-	(26)
Asset Transfers	-	-	8	-	-	-	-	(251)	-	245	2
Unexplained movements	-	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>21,202</b>	<b>24,025</b>	<b>41,123</b>	<b>52,596</b>	<b>929</b>	<b>7,336</b>	<b>3,388</b>	<b>82,200</b>	<b>602</b>	<b>245</b>	<b>233,646</b>
<b>Accumulated depreciation and impairment losses</b>											
Balance as at 1 July 2017	5,603	12,402	6,333	9,541	696	3,178	1,345	270	-	245	39,613
Opening balance adjustments	-	-	-	-	-	-	-	-	-	(245)	(245)
Adjusted accumulated balance 1 July 2017	5,603	12,402	6,333	9,541	696	3,178	1,345	270	-	-	39,368
Depreciation	772	801	1,675	1,621	37	492	294	22	-	1,214	6,928
Transfers	-	109	-	-	-	-	-	-	-	-	109
Accumulated depreciation on disposals	-	-	18	-	-	-	-	-	-	-	18
Unexplained movements	-	-	-	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>6,375</b>	<b>13,312</b>	<b>7,990</b>	<b>11,162</b>	<b>733</b>	<b>3,670</b>	<b>1,639</b>	<b>292</b>	<b>-</b>	<b>1,214</b>	<b>46,387</b>
<b>Carrying amount</b>											
<b>As at 30 June 2018</b>	<b>14,827</b>	<b>10,713</b>	<b>33,133</b>	<b>41,434</b>	<b>196</b>	<b>3,666</b>	<b>1,749</b>	<b>81,908</b>	<b>602</b>	<b>(969)</b>	<b>187,259</b>

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)  
For the Year Ended 30 June 2018

**Note 19: Intangible assets**  
**Breakdown of intangible assets and further information**  
Movement for each class of intangible assets are as follows:

	Purchased Software \$000	Developed Software \$000	Naming Rights \$000	Unexplained Movements \$000	Total \$000
<b>Cost</b>					
Balance as at 1 July 2016	3,899	249	109	-	4,257
Opening balance adjustments	558	-	-	-	558
Adjusted balance 1 July 2016	4,457	249	109	-	4,815
Additions	128	-	-	-	128
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
<b>Balance as at 30 June 2017</b>	<b>4,585</b>	<b>249</b>	<b>109</b>	<b>-</b>	<b>4,943</b>
<b>Accumulated amortisation and impairment losses</b>					
Balance as at 1 July 2016	2,453	249	109	-	2,811
Opening balance adjustments	(2)	-	-	(89)	(91)
Adjusted accumulated balance 1 July 2016	2,451	249	109	(89)	2,720
Amortisation expense	768	-	-	-	768
Accumulated amortisation on disposals	-	-	-	-	-
<b>Balance as at 30 June 2017</b>	<b>3,219</b>	<b>249</b>	<b>109</b>	<b>(89)</b>	<b>3,488</b>
<b>Carrying amount</b>					
<b>As at 30 June 2017</b>	<b>1,366</b>	<b>-</b>	<b>-</b>	<b>89</b>	<b>1,455</b>
<b>Cost</b>					
Balance as at 1 July 2017	4,585	249	109	-	4,943
Opening balance adjustments	-	-	-	(190)	(190)
Adjusted balance 1 July 2017	4,585	249	109	(190)	4,753
Additions	1,624	-	-	-	1,624
Disposals	3	-	-	-	3
Transfers	-	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>6,206</b>	<b>249</b>	<b>109</b>	<b>(190)</b>	<b>6,374</b>
<b>Accumulated amortisation and impairment losses</b>					
Balance as at 1 July 2017	3,219	249	109	(89)	3,488
Opening balance adjustments	(2,449)	-	-	-	(2,449)
Adjusted accumulated balance 1 July 2017	770	249	109	(89)	1,039
Amortisation expense	393	-	-	-	393
Accumulated amortisation on disposals	3	-	-	-	3
Unexplained movements	-	-	-	-	-
<b>Balance as at 30 June 2018</b>	<b>1,166</b>	<b>249</b>	<b>109</b>	<b>(89)</b>	<b>1,435</b>
<b>Carrying amount</b>					
<b>As at 30 June 2018</b>	<b>5,040</b>	<b>-</b>	<b>-</b>	<b>(101)</b>	<b>4,939</b>

These notes should be read in conjunction with the financial statements and policies



**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2018**

	2018	2017
	\$000	\$000
<b>Note 20: Investment Property</b>		
Opening Balance 1 July	5,499	5,711
Additions	14	-
Disposals	-	-
Depreciation	(213)	(212)
<b>Closing Balance as at 30 June</b>	<b>5,300</b>	<b>5,499</b>

Investment property includes buildings and premises owned by the Airport Authority, Ports Authority, and Cook Islands Property Corporation (NZ) Limited for which rental income is earned.

**Note 21: Related parties**

Related party relationships are a normal feature of commerce. Therefore, the Government will transact with related parties as a matter of course.

Related parties of the Government include:

\* Ministers of the Crown, who are key management personnel because they have authority and responsibility for planning, directing and controlling the activities of the Government, directly or indirectly

\* Ministers' spouses, children and dependants who are close family members of key management personnel, and

\* Private-sector entities owned or jointly controlled by Ministers, their spouses, children and dependants.

The key management personnel are members of the senior management group. Key management personnel have authority and responsibility for planning, directing and controlling activities of the Government, directly and indirectly. Key management personnel in Government are the cabinet ministers.

The aggregate remuneration of members of the senior management group and the number of individuals determined on a full time equivalent basis receiving remuneration within this category are

	2018	2017
Aggregate remuneration	\$ 540,000	\$ 540,000
Number of persons	6	6

Given the range of Government activities these related parties transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment of taxes and user chargers (such as purchase of electricity), and the receipt of entitlements and services (such as access to education). These transactions have not been separately disclosed in this note.

Other transactions with these related parties can include the employment of Minister's spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned enterprises, receipt of grants from, or the purchase or sale of goods and services to, a Government entity by Ministers, their spouses, children and dependants, or private-sector entities they own or jointly control. These transactions have not been separately disclosed in this note, unless they have taken place within a Minister's portfolio.



**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2018**

	<b>2018</b>	<b>2017</b>
	\$000	\$000
<b>Note 22: Creditors and other payables</b>		
Creditors, accruals and provisions	15,702	16,889
Customer bonds	959	926
Provision for legal settlement	-	498
Members of Parliament pension liability	1,286	1,286
Taxation refunds payable	1,320	1,368
Other creditors and payables	(2,412)	8,847
<b>Total creditors and other payables</b>	<b>16,855</b>	<b>29,814</b>
<b>Note 23: Employee entitlements</b>		
<b>Current employee entitlements</b>		
Provision for annual leave	3,783	3,782
<b>Total employee entitlements</b>	<b>3,783</b>	<b>3,782</b>
<b>Note 24: Trustee liabilities</b>		
Aid funding liabilities	25,433	20,065
Land trust liability	8,404	5,801
Workers compensation liability	1,631	1,562
Law trust liability	411	380
Customs bond trust liability	193	186
Insurance trust liability	42	40
Other trust liabilities	1,787	2,251
Immigration trust liability	120	79
<b>Total trustee liabilities</b>	<b>38,021</b>	<b>30,364</b>
<b>Trust Accounts</b>		
Aid trust account	12,886	9,212
Land trust account	7,122	5,257
Workers compensation account	1,757	1,623
Law trust account	411	380
Customs bond account	193	186
Insurance deposits account	-	40
<b>Total trust accounts</b>	<b>22,369</b>	<b>16,698</b>

**Aid funding liabilities**

The Aid funding liabilities relates to aid funding received from donors which have not yet been expensed on approved aid projects.

**Land trust liability**

The land trust liability is held by the Ministry of Justice for the administration of a land trust account where payments are received from lessees and are paid to the land owners. Unclaimed deposits are held by Government.

**Workers compensation liability**

The workers compensation liability is an accumulation of all historical levies received from employers less compensation payments to employees for accident or death under the Cook Islands Workers Compensation Ordinance 1964.

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2018**

	2018	2017
	\$000	\$000
<b>Note 25: Banking customer deposits (held by the Bank of the Cook Islands)</b>		
Current customer deposits less than 12 months	64,241	66,163
Customer deposits between 12 to 24 months	1,802	4,217
<b>Total banking customer deposits</b>	<b>66,043</b>	<b>70,380</b>

**Note 26: Financial Instruments - financial risk management**

The Government has devolved responsibility for the financial management of its main financial portfolios to its sub-entities such as Treasury, Revenue Management Division and the Bank of the Cook Islands. The financial management objectives of each of these portfolios are influenced by the purpose and associated governance framework for which the portfolio is held. The purposes of a portfolio may cover:

**Treasury portfolio**

Treasury are responsible for making all Crown payments, the management of Governments cash flow and the management of Government borrowings. The principles of responsible fiscal management are outlined in the Ministry of Finance and Economic Management Act 1995-96.

**Revenue Management Division portfolio**

Revenue management division are responsible for the administration of tax laws, the collection and management of tax on behalf of Government. Refer to Note 4 and Note 14 for further information.

**Bank of the Cook Islands portfolio**

The Bank of the Cook Islands provides banking services and only operates within one geographical segment being the Cook Islands. Detailed information on the exposure to market risk and policies for managing this risk are available in the Bank of the Cook Islands financial statements.

Exposure to currency, interest rate, liquidity and credit risk arises in the normal course of Cook Islands Government's operations. This note presents information about exposure to each of the above risks, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

**Derivative financial instruments**

Derivative financial instruments are currently not used by Government (2017:nil)

**Financial assets**

All financial assets are categorised as loans and receivables. Financial assets are initially recognised at fair value and subsequently measured at amortised cost. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

The maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

**Financial liabilities**

All financial liabilities are categorised as other liabilities. Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Gains or losses from interest and foreign exchange movements are recognised in the statement of financial performance.





Notes to the Financial Statements (continued)  
For the Year Ended 30 June 2018

**Note 26: Financial Instruments - financial risk management (continued)**

2018	Notes	Crown Parent \$000	Crown Entities \$000	SOEs \$000	Total \$000
<b>Classification of financial assets and financial liabilities</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	12	21,996	10,020	9,856	41,872
Term deposits	12	84,032	2,909	38,536	125,477
Trust accounts	24	14,416	7,953	-	22,369
Debtors and other receivables	14	10,800	3,902	11,952	26,654
Banking portfolio investments	16	-	-	77,940	77,940
Investments in shares and associate	15	-	-	11,144	11,144
<b>Total financial assets</b>		<b>131,244</b>	<b>24,784</b>	<b>149,428</b>	<b>305,456</b>
<b>Financial Liabilities</b>					
Creditors and other payables	22	6,626	4,663	5,566	16,855
Employee entitlements	23	76	3,239	468	3,783
Trustee liabilities	24	26,066	11,955	-	38,021
Banking customer deposits	25	-	-	66,043	66,043
Borrowings	Borrowings	103,065	-	-	103,065
<b>Total financial liabilities</b>		<b>135,833</b>	<b>19,857</b>	<b>72,077</b>	<b>227,767</b>
<b>2017</b>					
2017	Notes	Crown Parent \$000	Crown Entities \$000	SOEs \$000	Total \$000
<b>Classification of financial assets and financial liabilities</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	12	31,992	10,140	21,840	63,972
Term deposits	12	51,016	2,959	30,509	84,484
Trust accounts	24	10,179	6,519	-	16,698
Debtors and other receivables	14	15,279	3,782	14,145	33,206
Banking portfolio investments	16	-	-	74,381	74,381
Investments in shares and associate	15	-	-	9,879	9,879
<b>Total financial assets</b>		<b>108,466</b>	<b>23,400</b>	<b>150,754</b>	<b>282,620</b>
<b>Financial Liabilities</b>					
Creditors and other payables	22	4,640	6,756	18,418	29,814
Employee entitlements	23	76	2,600	1,106	3,782
Trustee liabilities	24	20,439	9,925	-	30,364
Banking customer deposits	25	-	-	70,380	70,380
Borrowings	Borrowings	95,305	-	-	95,305
<b>Total financial liabilities</b>		<b>120,460</b>	<b>19,281</b>	<b>89,904</b>	<b>229,645</b>

These notes should be read in conjunction with the financial statements and policies



**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2018**

**Note 26: Financial Instruments - financial risk management (continued)**

**Credit Risk**

Credit risk is the risk that a third party will default on its contractual obligations resulting in financial loss to the Government. The carrying value of financial assets equates to the maximum exposure to credit risk at balance date. Credit risk is managed at the entity level in accordance with their capital objectives and risk management policies.

	Notes	2018 \$000	2017 \$000
<b>Maximum exposure to credit risk</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	12	40,527	62,799
Term deposits	12	125,477	84,484
Trust accounts	24	22,369	16,698
Debtors and other receivables	14	26,654	33,206
Banking portfolio investments	16	77,940	74,381
Investments in shares and associate	15	11,144	9,879
<b>Maximum exposure to credit risk</b>		<b>304,111</b>	<b>281,447</b>

In the normal course of business, Government incurs credit risk from sovereign and trade debtors, cash and cash equivalents, term deposits and trust accounts held with other financial institutions and banking portfolio investments (loans receivable from customers).

The majority of financial assets held with other financial institutions are with: (1) Australia New Zealand Bank with a credit rating AA- (2) Bank of South Pacific with a credit rating BBB-.

Credit risk for the Government arises principally from banking portfolio investments held by the Bank of the Cook Islands. Detailed information on the exposure to credit risk are available in the Bank of the Cook Islands financial statements.

**Liquidity Risk**

Liquidity risk is the risk that the Government will encounter difficulty raising liquid funds to meet commitments as they fall due.

Liquidity risk is managed on an individual entity basis generally by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows.

The following table details the Government's remaining contractual maturity for its financial liabilities. The table was compiled based on:

- the undiscounted cash flows of financial liabilities based on the earliest date on which the Government can be required to pay, and
- both interest and principal cash flows.

	2018 \$000	2017 \$000
<b>Financial Liabilities</b>		
Less than 1 year	131,313	133,712
1-2 years	9,885	9,097
2-7 years	56,581	36,358
More than 7 years	29,988	50,478
<b>Total contractual cash flows</b>	<b>227,767</b>	<b>229,645</b>

The Government must also ensure that there is sufficient cash reserves available to meet at least 12 months of loan repayment requirements in accordance with the Cook Islands Loan Repayment Fund Act 2014. Refer to Note 12.

These notes should be read in conjunction with the financial statements and policies



**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2018**

**Note 26: Financial Instruments - financial risk management (continued)**

Liquidity risk is also prevalent in the banking operations of the Bank of the Cook Islands. Detailed information on the exposure to liquidity risk are available in the Bank of the Cook Islands financial statements.

The Government has access to financing facilities, of which the total unused amount at 30 June 2018 was \$14.0 million (2017: \$14.0 million). This financing facility relates to loan LN3479 Disaster Resilience Program with the Asian Development Bank. This facility allows Government to rapidly access financing in the event of a disaster. The Government expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

Given financial assets of \$305,456 (2017: \$282,620) and financial liabilities of \$227,767 (2017: \$229,645) there is sufficient liquid reserves to repay current debts.

**Foreign currency risk**

The Government undertakes transactions denominated in foreign currencies, and therefore is exposed to exchange rate fluctuations. Exchange rate exposures are managed by way of natural hedging. Whereby, when the exchange rates are favourable, foreign currency is purchased by Government.

The main source of foreign currency risk for Government is from foreign denominated borrowings. Historically Government has been subject to volatile fluctuations as 67% (69% | 2017) of total borrowings of \$103.1 million (\$95.3 million | 2017) are denominated in foreign currency. As shown in the table below, the fluctuations in the yearly foreign exchange gains and losses is due to unrealised gains and losses which is mainly due to the translation of borrowings at reporting date.

Given the mechanisms in place to hedge against foreign loans, this exposes Government to low to medium levels of foreign currency risk.

	2018 %	2018 \$000	2017 \$000
<b>Foreign borrowings per currency</b>			
New Zealand Dollar	33.3%	34,362	29,668
United States Dollar	30.2%	31,164	31,473
Chinese Yuan	36.1%	37,209	33,337
Euro	0.3%	330	827
<b>Total foreign borrowings per currency</b>		<b>103,065</b>	<b>95,305</b>
<b>Foreign exchange gain / (loss)</b>			
Realised foreign exchange gain / (loss)		50	262
Unrealised foreign exchange gain / (loss)		(7,238)	4,605
<b>Net foreign exchange gain / (loss)</b>		<b>(7,188)</b>	<b>4,867</b>

	2018 %	2018 \$000	2017 \$000
<b>Carrying amounts of foreign currency denominated financial assets and financial liabilities</b>			
<b>Financial Assets</b>			
New Zealand Dollar	96.9%	295,963	276,930
United States Dollar	2.7%	8,371	4,474
Chinese Yuan	0.0%	56	62
Euro	0.3%	1,066	917
<b>Total financial assets</b>		<b>305,456</b>	<b>282,383</b>
<b>Financial Liabilities</b>			
New Zealand Dollar	69.8%	159,064	164,008
United States Dollar	13.7%	31,164	31,473
Chinese Yuan	16.3%	37,209	33,337
Euro	0.1%	330	827
<b>Total financial liabilities</b>		<b>227,767</b>	<b>229,645</b>

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)  
For the Year Ended 30 June 2018

**Note 26: Financial Instruments - financial risk management (continued)**

Currency	2018	2017
<b>Exchange Rates</b>		
Euros	0.5828	0.6403
United States dollars	0.6741	0.7326
Chinese Yuan	4.4750	4.9575

\* Exchange rates obtained from the Reserve Bank of New Zealand as at 30 June.

Sensitivity analysis	Impact on operating balance		Impact on net worth	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
NZ dollar exchange rate strengthens by 10%	\$ 7,232	\$ 1,282	\$ 7,232	\$ 1,282
NZ dollar exchange rate weakens by 10%	\$ (6,305)	\$ (5,118)	\$ (6,305)	\$ (5,118)

**Interest rate risk**

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The following financial instruments are sensitive to changes in interest rates: cash and cash equivalents, term deposits, trust accounts, banking portfolio investments, banking customer deposits and borrowings.

Cash and cash equivalents, term deposits, trust accounts earn interest revenue at normal floating commercial rates. Refer to Note 12 for further details.

Detailed information on interest rate risk relating to banking portfolio investments and banking customer deposits are available in the Bank of the Cook Islands financial statements.

\$77.8 million (76%) (\$75.0 million (79%) | 2017) of total borrowings have been entered into by Government on fixed interest rates over the term of the loan. These loans do not expose Government to interest rate risk.

\$25.2 million (25%) (\$20.3 million (21%) | 2017) of total borrowings have been entered into by Government on variable interest rates over the term of the loan. These loans expose Government to interest rate risk. Refer to the statement of borrowings for further information.

Given the lengthy term to maturity of Government foreign loans at low fixed or floating concessionary interest rates, interest rate risk is low.

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2018**

**Note 27: Subsequent events**

**Te Mato Vai – Rarotonga water upgrade**

The Cook Islands Government embarked on a multimillion dollar upgrade of the water supply system on Rarotonga, with the goal of “delivering potable water, reliably, to all properties connected to the existing water supply network”. In order to achieve its target, the Cook Islands Government formed “Te Mato Vai” – the Cook Islands Water Partnership with the Governments of the People’s Republic of China and New Zealand. Funding for the Water Supply Upgrade has been provided through a combination of Cook Islands budget funding, a Chinese Government loan and grant assistance from New Zealand Government.

The project is divided into two stages – Stage 1 being the replacement of the ring main (Contract awarded to China Civil Engineering Construction Company (CCECC)) ; Stage 2 being the refurbishment of intakes and provision of storage, filtration and trunk mains. (Contract awarded to McConnell Dowell Contractors Limited)

**Stage 1 Ring main replacement**

Stage 1 of the project was completed in December 2016 by CCECC.

**Stage 1 Remedial work**

Landholdings Limited were awarded the contract for the remedial work to replace 17km of the pipework, approximately 25% of the ring main. The remedial work will provide a 100 year design life for critical sectors of the network. Remedial work commenced in November 2018, all physical work has been completed with the 12 month defect liability period ending in the 2021 financial year.

**Stage 2 Water intakes**

All physical work relating to the water intakes have been completed. McConnell Dowell are currently commissioning the trunk mains. The handover of the management of the water intakes to To Tatou Vai has commenced. The handover process is expected to be completed in the 2021 financial year.

**Current status of the project as at November 2020:**

<b>Project budget</b>	
New Zealand Aid	\$15.0 million
Chinese Government loan	\$23.5 million
Cook Islands Government	\$51.1 million
<b>Total project budget</b>	<b>\$89.6 million</b>
<b>Stage 1 remedial work budget</b>	
New Zealand Aid	\$13.0 million
<b>Total stage 1 remedial work budget</b>	<b>\$13.0 million</b>
<b>Total revised project budget</b>	
	<b>\$102.6 million</b>
<b>Percentage complete:</b>	
Stage 1: Ring main replacement:	100%
Stage 1: Ring main remedial work	95%
Stage 2: Upgrade of the 10 water intakes:	95%
<b>Total amount spent on project:</b>	
Total amount spent on stage 1 & stage 2	\$80.9 million
Total amount spent on stage 1 remedial work	\$9.8 million
<b>Total amount spent on project:</b>	<b>\$90.6 million</b>

**Notes to the Financial Statements (continued)**  
**For the Year Ended 30 June 2018**

**Note 27: Subsequent events (continued)**

**Manatua cable**

In early April 2017, an agreement between the Governments of the Cook Islands, Niue, French Polynesia and Samoa was signed to facilitate the design, construction and operation and maintenance of a regional submarine cable system that will connect these countries. In October 2018, all four Consortium members signed a Construction and Maintenance Agreement and Supply Contract. The Supply Contract has been awarded to Tyco Electronics Subsea Communications LLC. The Supply Contract is for the design, manufacture, installation, integration, testing and commissioning of the Manatua Cable System and the provision of long term technical support and maintenance of the System.

Avarua Cable Limited is the Manatua Consortium member for the Cook Islands. The Government of New Zealand has granted NZ \$15.0 million to support the project, and a Grant Funding Agreement (GFA) was signed for the disbursement of the funds in April 2018. The Asian Development Bank has approved a loan allocation of up to US \$15.0 million, equivalent to NZ \$21.3 million.

The project is expected to be completed by 31 December 2021.

**Current status of the project as at November 2020:**

New Zealand Aid	\$15.0 million
ADB Loan	\$21.3 million
<b>Total Budget for the project:</b>	<b>\$36.3 million</b>
<b>Percentage complete:</b>	<b>80%</b>
<b>Total amount spent on project:</b>	<b>\$30.6 million</b>

**Apii Nikao Rebuild**

Apii Nikao School was destroyed by a fire in 2013.

The Chinese Government provided a grant to the Cook Islands for the Apii Nikao School rebuild.

China Civil Engineering Construction Corporation was awarded the construction contract in April 2017. Construction started in May 2017 and was completed and handed over in the 2018/2019 financial year.

The rebuild project comprised of three classroom blocks covering approximately 5,200m<sup>2</sup>. The buildings feature flexible learning spaces which include large learning areas for each grade and break-out spaces for individual or smaller group learning. These flexible spaces support innovative learning principles promoted in New Zealand schools.

Water tanks, solar panels for power generation, and a pillared-concrete fencing system have been installed to make the school more resilient to climate change and to reduce its carbon footprint.

**Current status of the project as at November 2020:**

Chinese Aid	\$11.8 million
<b>Total Budget for the project:</b>	<b>\$11.8 million</b>
<b>Percentage complete:</b>	<b>100%</b>
<b>Total amount spent on project:</b>	<b>\$11.8 million</b>

**Southern Group Renewable Energy Project**

The Southern Group Renewable Energy Project is the second phase in the Cook Islands pursuit to delivering renewable energy to all islands by 2020 by building solar powered plants. The first phase was the Northern Group Renewable Energy Project which involved the following islands: Manihiki, Pukapuka & Nassau, Palmerston, Penrhyn and Rakahanga. The Southern Group Renewable Energy Project includes the following islands: Mauke, Mitiaro, Mangaia, Atiu, Aitutaki and Rarotonga.

The project is funded by the following parties; Asian Development Bank, European Union, Global Environment Fund, Green Climate Fund and Pacific Environment Community.

**Current status of the project as at November 2020:**

Asian Development Bank	\$9.9 million
European Union	\$7.6 million
Global Environment Fund	\$5.2 million
Green Climate Fund	\$8.8 million
PEC Grant Fund	\$5.0 million
Cook Islands Government	\$3.9 million
<b>Total Budget for the project:</b>	<b>\$59.3 million</b>
<b>Percentage complete:</b>	<b>83%</b>
<b>Total amount spent on project:</b>	<b>\$40.4 million</b>

These notes should be read in conjunction with the financial statements and policies



**Note 27: Subsequent events (continued)**

**Covid-19 Outbreak**

The Covid-19 outbreak, which has become a global pandemic subsequent to the 30 June 2018 reporting date, presents strategic, operational and commercial uncertainties for the Government. The situation is changing rapidly and there are increased uncertainties around the duration, scale and impact of the Coronavirus/Covid-19 outbreak. The Government is taking various measures to mitigate the impact of Coronavirus/Covid-19 on the Cook Islands and the economy. The Government together with the Ministry of Finance continue to assess the potential impacts on Government's financial position, however given the continued uncertainties the future financial impacts have not been determined at this stage.